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WORLD NEWS

Jewish groups say France is delaying compensation

A bitter dispute erupted in Washington at the International conference on Holocaust assets. Jewish groups accused France of dragging its heels on compensation for artistic masterpieces stolen from victims of the Nazis. **Page 16; Observer, Page 15**

Turkish leader promises reform
Veteran Turkish centre-left leader Bülent Ecevit said he would press ahead with economic and social reform after being asked to form a government. **European news, Page 2; The Koran and the sword, Page 14**

Northern Ireland deal 'close'
Northern Ireland's political leaders appeared close to a deal on cross border organisations to link the region and the Republic of Ireland after weeks of talks. **UK news, Page 12**

EU cosmetics row with US brewing
The danger of friction between the US and the European Union over drugs and cosmetics trade grew after 10 EU nations voted against European Commission proposals for fighting BSE mad cow disease. **World trade news, Page 6**

Ban on four feed additives likely
European Union plans for a ban on four antibiotics used in animal feed seems certain to go ahead after winning the endorsement of 10 member states. **World trade news, Page 6**

Australia's economy defies Asia
Australia's economy grew 5 per cent in the year to September, defying the Asian crisis to make it one of the fastest-growing economies in the industrialised world. **Page 16; Editorial Comment, Page 15**

Blair seeks backing on defence
UK prime minister Tony Blair will seek French backing for his proposal to give Europe a common defence capability, and hopes to complete an agreement on enhanced co-operation between UK and French forces. **European news, Page 2**

Warning from World Bank
The World Bank warned that developing countries faced a precarious short-term outlook which demanded that policymakers in industrial countries did more to avert a global slump. **International news, Page 7**

US anger over China arrest
Discord between the US and China flared over the detention by Beijing of Xu Wenli, a veteran Chinese dissident who has led attempts to establish China's first opposition party. **Asia-Pacific news, Page 4**

Human rights leader held
Egyptian police arrested the secretary-general of the country's main human rights organisation after accusations that the British embassy paid it to write a report which exposed police brutality. **International news, Page 7**

Brussels plans new fraud office
The European Commission published plans for an independent office to investigate fraud in European Union spending. **European news, Page 2**

Sales of new US homes rise
Sales of new homes in the US rose in October as low mortgage rates and rebounding stock prices kept the housing market on course for a good year, the government said. **US and Canadian news, Page 5**

BUSINESS NEWS

Shares in Boeing fall heavily after warning on profits

Boeing shares fell heavily yesterday after the world's biggest aerospace group stung investors with sharply reduced profit predictions and a warning that Asia's economic crisis could last five years. **Companies and Markets, Page 17; Worst may not be over, Page 15; Lex, Page 16**

Total, the French oil group, launched a campaign to bolster shareholder support for its proposed takeover of PetroFina of Belgium. Doubts have arisen about cost savings and synergies between the two groups. **Companies and Markets, Page 17; Lex, Page 16**

Ducati, the Italian motorcycle company, is planning a stock market listing early next year as it continues a remarkable turnaround after being rescued from near collapse in 1996. **Companies and Markets, Page 17**

George Chryssolouris, the chief executive of OTE, Greece's partly privatised telecoms operator, resigned after clashing with the government. **European companies, Page 18**

Sears Roebuck, second biggest US store group, dashed hopes of a prosperous Christmas season when it delivered a profit warning for the final quarter. **Companies and Markets, Page 17**

Air France, the French national carrier, is likely to decide next year which of its two US partners – Continental Airlines and Delta Air Lines – it will join forces with in an attempt to build a global airline alliance. **European companies, Page 18; Lex, Page 16**

Deutsche Bank has agreed to pay DM1bn ($596m) for Crédit Lyonnais-Belgium. The German group is the largest foreign bank in Italy, with considerable retail operations in Spain. **European companies, Page 18; Observer, Page 15**

Aerospatiale of France is to give up all or part of its interest in the Sextant avionics group under an agreement that will smooth the way to its privatisation next year. **European companies, page 18**

Rupert Murdoch's efforts to penetrate the Italian pay television market suffered a setback when the Italian government unveiled proposals to prevent any single broadcaster controlling more than 30 per cent of pay TV rights for soccer. **International companies, Page 19**

Cathay Pacific, Hong Kong carrier, has pulled out of discussions to take a stake in Philippine Airlines. **Asia-Pacific companies, Page 21; Observer, Page 15**

The European Union will have a single power market dominated by gas-fired electricity generation within 20 years, according to a report. **Trade, Page 8**

Nissan, the Japanese car and truck group, is accelerating efforts to reduce its debt burden by selling assets and turning idle properties into cash-generating businesses. **Asia-Pacific companies, Page 21**

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets.
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WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8975.98	(−157.58)
NASDAQ Composite	1978.82	(−24.93)
Europe and Far East		
CAC40	3649.91	(−38.43)
DAX	4691.69	(−99.04)
FTSE 100	5507.2	(−30.3)
Nikkei	14988.62	(+151.20)
US Lunchtime RATES		
Federal Funds	4.825%	
3-mth Treas Bills: Yld	4.47%	
Long Bond	103¾	
Yield	5.02%	
OTHER RATES		
UK: 3-mo Interbank	6⅝%	(6⅝%)
UK: 10 yr Gilt	134.35	(134.17)
France: 10 yr OAT	136.81	(136.23)
Germany: 10 yr Bund	106.56	(106.38)
Japan: 10 yr JGB	105.538	(105.040)
NORTH SEA OIL (Argus)		
Brent Dated	$9.84	($9.805)

GOLD		
New York: Comex	$292.7	(293.4)
London	$293.85	(294.15)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.65705	
DM	1.6885	
FFr	5.5973	
SFr	1.36425	
Y	120.15	
London:		
£	1.661	(1.6527)
DM	1.673	(1.678)
FFr	5.6102	(5.6267)
SFr	1.3707	(1.3758)
Y	120.52	(121.92)
Tokyo Close		Y 121.7
Sterling		
DM	2.7788	(2.7732)

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Schröder backs tax stance by Lafontaine

German chancellor's support for majority voting is blow to UK

By Peter Norman and Ralph Atkins in Bonn and Robert Peston in London

Gerhard Schröder, Germany's chancellor, yesterday threw his weight behind calls from Oskar Lafontaine, his finance minister, for the European Union to abandon unanimity in decisions on taxation.

His stand – outlined in an interview with the Financial Times – is a serious blow to Tony Blair, the British prime minister, who opposes majority voting on tax policy.

The British government has said the current requirement for unanimity on tax matters would allow the UK to block any EU moves toward tax harmonisation that it thought would be damaging.

In the FT interview, Mr Schröder said majority voting on tax matters should be part of wider reforms of EU decision-making tied to enlargement.

These reforms would not be completed under Germany's presidency in the first half of next year.

Although intended as a constructive contribution to the debate over the EU's future, his comments are unlikely to calm the tensions which surfaced this week between Mr Lafontaine and Gordon Brown, UK finance minister.

At a recent meeting of EU finance ministers in Brussels, Mr Brown threatened to use the national veto to block tax measures hostile to British interests.

"We know that there are different opinions in Europe but that doesn't mean it is not sensible, in a single market with a single currency, to have better tax coordination," Mr Schröder said.

"We will never have a complete harmonisation because of differences in countries' tax bases. But I must stress that the finance minister [Oskar Lafontaine] has the backing of the government when he demands steps in this direction."

Mr Lafontaine's proposal that majority voting should be introduced for tax matters, "is not only the personal opinion of the finance minister. It is also the position of the government." Mr Lafontaine had said his remarks on Tuesday were "personal opinions" and not government policy.

The chancellor hoped his government's stance would not sour relations with the UK. Debate over long-term reform of the EU was inevitable, he said, and "all member states are bound to put forward their position in this debate on institutional reform".

Mr Schröder described the heated debate in the UK over European tax harmonisation as "a bit artificial". Clearly dismayed at some UK press coverage, he added: "It is inappropriate that the German finance minister and the German foreign minister should be pilloried by the Daily Mail."

Germany was bearing a "double burden" in Europe, Mr Schröder said.

Not only did it make a large net contribution to the EU budget, it also suffered from net recipient countries offering "tax oases" that attracted business and employment away from Germany. The UK also had an interest in preventing "tax dumping" and unfair tax competition, he said.

Yesterday Mr Blair's spokesman made a thinly veiled attack on Mr Lafontaine, saying he would have been "very surprised" if Mr Brown had gone to a meeting of EU finance ministers to make a "personal statement" on tax policy, rather than reflecting his government's position.

Mr Schröder's comments came after the German cabinet agreed yesterday the outline programme for Germany's EU presidency, which will focus on a European "jobs pact", the so-called Agenda 2000 reform of EU finances and agricultural policy and measures to make the union more "citizen friendly".

Italy seeks to defuse dispute, Page 2
Teaser Blair, Page 8
Business and the euro, Page 25

Radislav Krstic, the Bosnian Serb general wanted for alleged crimes against humanity during the 1995 occupation of the Moslem enclave of Srebrenica, was captured yesterday by Nato peacekeepers. Page 3

Rover boss quits amid reports of board split

By Haig Simonian and David Wighton in London

Walter Hasselkus, chairman of BMW's troubled British subsidiary Rover, resigned unexpectedly yesterday as reports of a boardroom split at the German carmaker and worries about Rover triggered a sharp fall in BMW shares.

BMW stock fell by more than 5 per cent, dropping DM63 to close at DM1,142 amid reports of differences between Bernd Pischetsrieder, BMW's chairman, who masterminded the Rover takeover, and Wolfgang Reitzle, the group's number two, who is believed to have been unenthusiastic about the deal.

Mr Hasselkus meanwhile resigned to shoulder responsibility for the poor performance of Rover in the fiercely competitive UK car market.

Sales figures for November are expected to show Rover's market share remained depressed.

In October, Rover's market share fell to an all-time low of 6.6 per cent, exacerbating rising losses caused by the strong pound.

Mr Hasselkus, a BMW board member sent to sort out Rover's problems in September 1996, will be replaced by Werner Sämann, an engineer and academic who is relatively unknown outside the company.

Mr Hasselkus's resignation came as Rover's shop stewards agreed to a radical cost-cutting plan that should save £150m ($247m) a year from 2000.

The flexible working scheme will eliminate overtime payments and costly Saturday premiums by moving to an "annualised working time account" system based on hours worked during a year.

The system, used by BMW in Germany, will give Rover greater flexibility in allocating labour during periods of peak demand without commiting itself to costly overheads at slacker times.

The scheme should help to staunch Rover's spiralling losses. Analysts expect the company will lose about DM500m ($293m) this year, based on BMW's conservative accounting principles.

In an interview, Mr Pischetsrieder declined to give a 1998 forecast, but said the figure would be swollen by provisions for the job cuts.

He denied any serious differences within the BMW board over Rover and reasserted his personal commitment to the UK group.

He said the flexibility deal would allow BMW to invest an estimated £1.6bn in a new range of small and medium cars to replace Rover's slow-selling 200 and 400 models.

The investment, which remains dependent on government aid, would secure the future of Rover's Longbridge plant in Birmingham, England. Longbridge is Rover's largest factory, employing about 14,000 workers.

Ministers are resigned to providing a generous package, which some industry observers believe could reach £200m.

Under EU rules, financial assistance cannot exceed 20 per cent of the investment.

The Rover 200 and 400 replacements are crucial to the survival of Longbridge. Although the ramshackle plant will build the new Mini, due in 2001, its future has been increasingly threatened by the declining sales of the 200 and 400.

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BMW reins in unruly charge, Page 20

Brussels launches investigation into $600m plant fraud

By Peter Marsh in London

European Commission officials are investigating a suspected fraud involving DM1bn ($594m) of excavating machines imported from Asia and sold throughout Europe, often with falsified safety certificates.

The machines, which are not intended for use in Europe and are made without essential safety features, come from Japan, Indonesia and South Korea, which have been left with large amounts of unsold stock due to the region's economic crisis.

They are often half the price of orthodox equipment, lowering prices throughout Europe.

At the heart of the fraud is a network of several hundred dealers and "middlemen" in the Netherlands, Britain, France and Germany. They are trading the equipment, normally without the involvement of manufacturers, and often with forged documentation covering health and safety, which is required by European law.

"We are facing a massive case of fraud and anti-competitive behaviour but so far we have been able to do little about it," said one EU official.

The machines have been built for use in countries in south-east Asia, which have less onerous health and safety regulations than the US and Europe, and do not include such features as specialised engine override controls or proper seat restraints. This could pose a danger over difficult terrain.

It is believed that in the past year some 5,000 construction machines, out of a total European market of 85,000, have been sold in Europe this way. According to officials, unauthorised dealers buy the machines from auctions, mainly in the Netherlands, and distribute them through other "traders", who can provide forgeries of the necessary safety documentation.

Teruaki Noda, managing director of the European construction equipment division of Komatsu, the Japanese company which is the world's second-biggest maker of earth moving machinery and has three large European plants, said the importing was "unfair". The unauthorised machines could injure plant operators, and also passers-by.

Equipment from Hitachi and Kobelco of Japan and Daewoo and Samsung of Korea has been sold this way.

The European Commission has been unable to make much headway in tackling the problem because it lacks powers to take action in countries where checking safety documentation is left to customs or health agencies.

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WORLD NEWS

EUROPE

TURKISH POLITICS PRIME MINISTER DESIGNATE VOWS TO PRESS AHEAD WITH ECONOMIC AND SOCIAL REFORM

Ecevit asked to form government

By Leyla Boulton in Ankara

Bülent Ecevit, the veteran Turkish centre-left leader, yesterday vowed to press ahead with economic and social reform after being asked to form a government.

After a week of consultations with the country's squabbling political parties, Süleyman Demirel, Turkish president, asked Mr Ecevit, 73, to cobble together an administration to run the country until early elections, scheduled for April 18.

But in a possible hint that elections could yet be postponed until their legal deadline of 2000, Mr Ecevit said "it would be wrong to see this government as only an election government".

He said it would continue reforming the economy and would fight the mafia just like the cabinet led by Mesut Yilmaz, ousted last week in a no-confidence vote over corruption allegations.

In a move likely to cheer Turkey's business community, Mr Ecevit spoke of the need to pass long overdue legislation to strengthen the banking sector at a time when emerging markets such as Turkey face a squeeze on foreign lending.

Mr Ecevit, who served as vice-premier in the previous administration of Mr Yilmaz, emerged as the best compromise candidate for leading a caretaker government despite the fact that his Democratic Left party is only the fourth-largest in the 550-seat parliament. This was mainly because the armed forces, who have the last say in Turkish politics, have made it clear they do not want a government led by the Islamist Virtue party, the largest in parliament.

In addition, the next two biggest parties – the centre right Motherland and True Path parties – were unable to agree on who should get the top job amid bitter personal rivalries between their respective leaders: Mr Yilmaz and Tansu Çiller, Turkey's first female prime minister.

However, Mr Ecevit said he still wanted to try to form a government together with those two centre-right parties and warned time was of the essence in completing consultations with party leaders. Talks start tomorrow.

Mr Ecevit referred obliquely to the foreign policy crises facing Turkey, the most pressing of which is the stand-off over Italy's refusal to extradite Abdullah Ocalan, leader of the Kurdish PKK guerrilla group. He indicated that a weak government would make Turkey vulnerable to pressure from abroad. "It is beneficial to have a determined and parliament-backed government," he said.

His mention of investments by the previous government to improve energy supplies could also be interpreted as a reference to a looming deadline next month for a decision on the construction of a pipeline to transport Caspian oil to western markets via Turkey.

Turkish feature, Page 14

A reforming nationalist

Ecevit backed Yilmaz's changes at home and has always been a hawk abroad

By Leyla Boulton in Ankara

Bülent Ecevit might be counted among Turkey's political dinosaurs, but he brings to the mission of prime minister-designate two big strengths: continuity and experience.

The antiquated image is evident not only in such idiosyncrasies as his refined English learned at an elite American college in Istanbul, his talent for poetry and his old-world manners. The 73-year-old veteran was elected to parliament four decades ago and has already had two stints as prime minister – first riding to power on a wave of public enthusiasm in the early 1970s.

But there is something here and now about him, too. As vice-premier in the administration of Mesut Yilmaz until it collapsed under the weight of corruption allegations last week, he offers continuity. Not only did he support the last coalition until the bitter end, but all the evidence is that he will further pursue its economic reforms and support its army-backed fight against organised crime.

A stockbroker described his appointment as "the good story the market is looking for". Not only would it cheer the Turkish business community, but it would reassure foreign lenders and investors at a time when Turkey most needs foreign capital to face down the double threat of slowing growth and a squeeze on credit for emerging markets.

There is, of course, no guarantee that he will be able to form a government, even if he is the best compromise choice.His Democratic Left party, with 61 seats in parliament, is the smallest of any party of note. On top of that, he wants to include in his cabinet Mr Yilmaz and Tansu Çiller, the leaders of the two larger centre-right parties, but they detest each other.

On the international front he is of a more nationalistic bent than Mr Yilmaz, who in spite of his emotional outbursts, was more moderate in his actions than in his rhetoric.

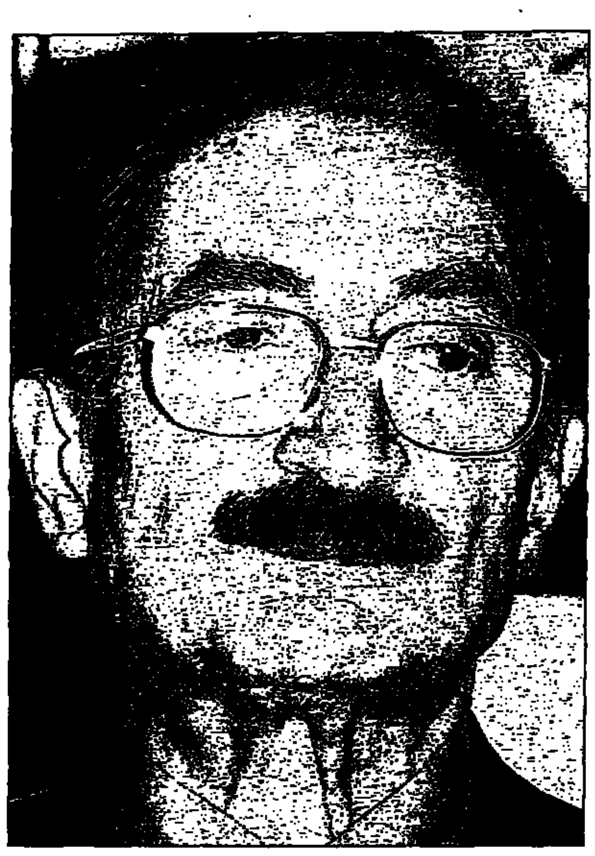
In one of his poems, Mr Ecevit had this to say of the Greeks, Turkey's longstanding foes who are blocking its bid to join the European Union: ". . . The wild spirit flowing in our veins is the same. We have cursed each other. But there is still love within us."

But he has always been a hawk on Cyprus, ever since he ordered the 1974 intervention by the Turkish armed forces to counter a Greek Cypriot coup. He did so after failing to secure British and US action to uphold the status quo on the island.

Last month, days after the European Commission had issued a more conciliatory report on Turkey's membership bid, he called for a review of Turkey's customs union with the EU on the grounds that the relationship was turning into a one-way street.

It is this combination of patriotic nationalism with reformist rhetoric on the economy that would make him a viable longer-term prime minister in the eyes of many should early elections planned for April 18 be called off.

"Then with this overwhelming support the country could decide to wait until 2000 [the constitutional deadline for the next poll] for new elections and that would bring stability," enthuses a senior western diplomat. "It's so reasonable and rational it seems unlikely – but everyday you are surprised in Turkey."



Bülent Ecevit: strengths are continuity and experience

UK and France to hammer out defence issues

By Andrew Parker in London

Tony Blair, UK prime minister, will today seek to enlist French support for his proposal to give Europe a common defence capability, and finalise an agreement on enhanced co-operation between UK and French military forces.

At an Anglo-French summit, the prime minister will seek to resolve differences over how a European defence arm would be accountable to the European Union.

French and British defence and foreign ministers met for three hours of talks in Paris to prepare for the summit yesterday.

However, the summit in St Malo risks being overshadowed by the protracted dispute over possible harmonisation of taxes. Oskar Lafontaine, Germany's finance minister, and Dominique Strauss-Kahn, his French counterpart, have both voiced support for majority voting on tax policy in the EU.

Mr Blair, keen to help shape the future direction of Europe despite the UK's decision not to join the European single currency next month, is expected to press for the abolition of the Western European Union, Europe's embryonic defence arm.

The UK foreign office has argued the WEU's military role should pass to Nato, while political functions would be subsumed in a new fourth pillar of EU competence.

However, the French have historically favoured placing a common defence capability in the existing second pillar relating to foreign and security policy.

Mr Blair's proposal would allow Europe, under the authority of Nato, to respond independently of the US to deploy military forces quickly in response to crises such as those in Bosnia and Kosovo.

The prime minister's official spokesman said Anglo-French co-operation on defence would be influential because the two countries were the only EU member states with nuclear capabilities and seats on the UN security council.

"It is widely accepted that we pack most of the EU's conventional military punch. We and the French have been looking at achieving a stronger and more coherent voice on international affairs and combining this with an ability to back it up with military force if necessary."

Mr Blair and Jacques Chirac, French president, are to sign letters of intent allowing UK and French military forces to collaborate on crisis management. There will also be agreement on a joint military command.

Separately, the UK and French governments will announce further diplomatic co-operation in Africa.

There will also be collaboration on tax measures to promote research and development in small and medium-sized businesses, and joint action to tackle the potential impact of the millennium bug on the channel tunnel rail link.

EXTERNAL REPRESENTATION OF THE EURO-ZONE COUNTRIES

EU finds a way to present the euro-11

By Michael Smith in Brussels

With their deal this week on how to represent the euro beyond the continent, European Union countries have resolved – among themselves at least – the last of the big issues that needed resolution before the launch of the single currency in January.

Which countries would first join the new single currency, and a system to ensure fiscal discipline have long been settled, but the politically sensitive issue of the euro-zone's external representation had been left to last.

On Tuesday, EU finance ministers agreed a pact which resolved differences between large and small countries and allowed the European Commission, which at one stage feared it would be marginalised in external representation, to declare a "good result".

Now they have to sell their plan to other participants in organisations such as the Group of Seven most industrialised nations and the International Monetary Fund. That may not be easy.

The problem is that the euro-zone scheme envisages finding extra seats at international meetings to accommodate small countries when they hold the presidency of the group. The US is among countries which have made clear they feel a larger EU presence will make meetings unwieldy.

One solution floated among member countries last month was to exclude the Commission from the euro-11's diplomatic team. The Commission had earlier suggested a "trinity" of the European Central Bank, the president of the euro-11 and itself.

The final communique agreed by finance ministers on Tuesday accepts participation of the Commission at both G7 meetings and the IMF, but also says its role will be no more than to "provide assistance" to the euro-11 president.

> **US feels a larger EU presence will make meetings unwieldy**

A bigger issue concerned which countries should play the lead roles at international meetings. Of the euro-11 only France, Germany and Italy are G7 members.

They feared their authority would be weakened if smaller countries were also represented, while smaller countries were adamant they should not be excluded.

Tuesday's deal envisages a place at the table for the president of the euro-11. If the president comes from a non-G7 state, he or she would attend in addition to representatives of France, Germany and Italy.

However G7 members will "for the sake of greater continuity" provide support for the euro-11 president on a rotating basis for a term of office of one year. This is likely to mean that Germany, holder of the EU presidency in the first half of next year, will assist Finland when it assumes the presidency in the second half of 1999.

France, president from January to July of 2000, would provide what some are calling the "grandfathering" role to Portugal, which takes office in the back half of that year.

The US has made no comments on the proposed solution.

EU officials hope, however, the Americans will not want to cause political problems for European countries ahead of monetary union and will therefore agree to a deal which is in any case only expected to last for a few years.

Oskar Lafontaine, German finance minister, is expected to use a trip to Canada and the US this week to press the EU's case.

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TAX HARMONISATION

Italy seeks to defuse dispute over policy

By James Blitz in Rome

Italy yesterday sought to defuse a growing row over tax policy among its European Union partners by launching a plan to harmonise company taxation gradually across Europe on the basis of consent from all member states.

In an attempt to get agreement between the UK and Germany over EU tax policy, Italy launched a plan to create a common system of company taxation across Europe, leaving it to each government to decide the rate at which the tax should be levied in its own country.

In an interview with the Financial Times, Vincenzo Visco, Italy's finance minister, appeared sympathetic to British opposition to the creation of a minimum rate of company taxation across Europe, saying such a move was "untimely, questionable and, above all, hardly feasible".

Mr Visco said calls by Oskar Lafontaine, Germany's finance minister, for the setting of a minimum rate of company tax had been exaggerated by newspapers. But he argued such a move would be "wrong in any event because it could threaten the entire process of EU integration".

He also showed strong support for a statement earlier this week by Gordon Brown, UK finance minister, that there was no question of adopting a qualified majority vote system for tax policy. "Any change on tax policy needs to be made with the unanimous support of all states. Mr Visco said he has started to present plans for a "common system" of company tax and accounting in the EU which Italian government officials believe is being viewed favourably by the UK government.

Under the plan, the EU would develop a company taxation system with a uniform tax base across all member states. The rate at which the common EU tax is levied would be left to individual governments to decide. The "European common system" would co-exist alongside established national systems of company tax. This would allow companies to decide for themselves which of the two – the EU or the national system – to choose.

Mr Visco believes the "common European system" would have significant accounting benefits in the short term for, say, a UK company with plant and investments in France and Germany. "Although a company would be paying different rates of the common European tax in each country, its accounting costs would be reduced because it would be operating under a uniform tax code," he said.

Mr Visco argued that under his proposal, growing economic integration in Europe would gradually lead to a common system of tax across Europe. "What we have to avoid at all costs is a system being imposed in haste from the top down."

Plans fall short of harmonisation

By Emma Tucker in Brussels

In the recent hysteria surrounding tax harmonisation in the European Union, it has been easy to lose sight of what is on the table for discussion. The proposals that have been made are limited and fall well short of wholesale harmonisation.

The tax package the European Commission proposed at the end of last year aims to iron out distortions to the single market created by "harmful" tax competition between member states. It contains three elements.

First, a voluntary and expanding 85-point code of conduct on business taxation, which commits member states to phasing out tax breaks granted to specific sectors or regions that lure inward investment at the expense of neighbouring countries.

Second, there is a legislative proposal for a minimum 20 per cent withholding tax on income from the savings and investments of non-residents. At the moment 11 of the EU's 15 member states do not tax interest on the savings of individuals based in other member states – a ploy to attract capital. However, it also means that member states lose out on valuable revenues.

The last element is a proposed law to make it easier to transfer interest and royalties across borders without the risk of double taxation.

That, in spite of some of the more lurid stories this week, is as far as current activity by the Commission extends. On value added tax, a minimum rate of 15 per cent prevails but there are no plans to harmonise rates further.

Nor are excise duties, other than those on energy products, being tackled. In spite of the hugely disparate rates of duty charged on alcohol and cigarettes, the Commission has chosen not to pursue earlier proposals to bring the rates more into line.

Income tax has never been on the agenda and is never likely to be – a point reiterated yesterday by Jacques Santer, Commission president. This would require EU countries to totally redraft their social security systems, he said.

However, there is no reason why other areas of direct taxation – such as corporation tax – should not one day be put up for harmonisation. Before the last rewrite of the EU treaty, the Commission proposed extending qualified majority voting into the tax field – proposals that were shot down by all but three member states.

In spite of this, the Commission yesterday acknowledged that it had not given up its long-term ambition of ending the unanimity rule for taxation decisions, a goal recently embraced by the German and French finance ministers.

The Monti tax package

- Proposal for a directive imposing a minimum 20% witholding tax on income from savings and investment.
- Proposal for a directive to eliminate withholding taxes on payments of interest and royalties between associated companies of different member states.
- Voluntary Code of Conduct on business taxation – aimed at eliminating 'unfair' tax competition by getting rid of the distortions created by lower tax regimes granted to specific sectors or regions.

Commission tax proposals

- Energy taxes - proposals to set minimum levels of taxation on energy products including coal, gas and electricity.

Others

- VAT - the minimum standard rate is fixed at 15%, but with many exemptions. There are no plans to harmonise rates further.
- Excise Duties - No proposals have ever got off the ground.

NEWS DIGEST

BRUSSELS STEPS UP CORRUPTION FIGHT

Commission plans new independent fraud office

The European Commission yesterday published plans for a new independent office to investigate fraud in European Union spending, in response to pressure from the European parliament to step up the fight against corruption.

Jacques Santer, Commission president, bowed to parliament demands in October to set up such a unit, amid controversy over alleged fraud in some programmes run by the EU's Brussels-based executive.

The new office would "complement and reinforce" the work of Uclaf, the Commission's existing anti-fraud unit. But the Commission would have no influence on its conduct. Members of the European parliament claimed Uclaf's ability to investigate Brussels staff was sometimes compromised by its link with the Commission.

The new office would carry out both external investigations – into spending in the EU's common agricultural policy and structural funds – and internal probes into EU organisations. A nine-member management board would include six independent experts, two Commission representatives, and one from the Court of Auditors, the EU's accounting watchdog. **Neil Buckley, Brussels**

DEUTSCHE POST

Bonn to approve Postbank sale

The German government is expected shortly to approve the sale of Postbank, the postal savings bank, to Deutsche Post, the acquisitive mail distribution company, in a move which would bring a long-running debate about the two state-owned institutions full circle.

The finance ministry is believed to support the deal as a means of guaranteeing income from the sale of Postbank, which had been earmarked for privatisation by the previous centre-right administration.

Raising money through an initial public offering of shares is seen as more uncertain due to volatility on the financial markets.

Opposition parties condemned a sale to Deutsche Post as "a move backwards". They claimed the government would unravel the original strategy of breaking up the old federal postal service into three parts – telecommunications, mail distribution and banking services.

Deutsche Post, which is due to be privatised in 2000, has long coveted the bank and in 1995 launched a bid for Postbank which, until now, has successfully defended its independence. As well as sharing common roots, the two companies have operational ties through Postbank's use of Deutsche Post's 15,000 branches.

Deutsche Post has made several big acquisitions this year as part of a drive towards becoming a big European mail delivery company. **Frederick Stüdemann, Bonn**

NATO EXPANSION

Netherlands ratifies link

The Netherlands yesterday ratified Nato membership for Poland, Hungary and the Czech Republic, clearing the way for expansion of the western military alliance into eastern Europe.

The Netherlands was the last Nato country to ratify the link for the new members.

Apart from the Greens, all political parties in the Dutch upper house welcomed the expansion as a stimulus for democracy in central and eastern Europe.

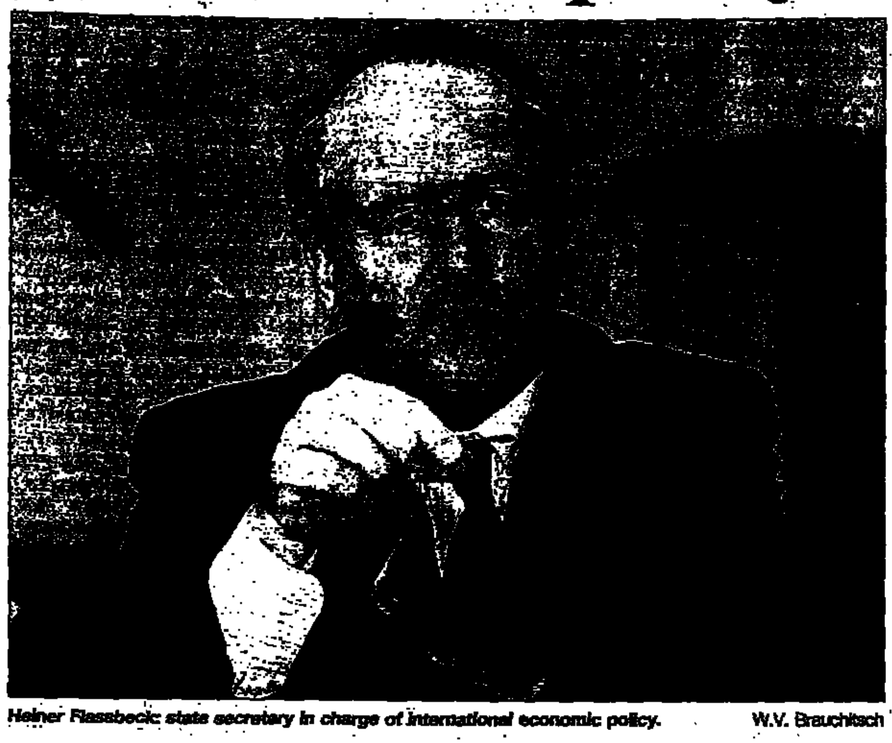
Jozias van Aartsen, foreign minister, ruled out membership for Slovenia and Romania until the new members were successfully incorporated. Poland, Hungary and the Czech Republic will be made full Nato members at a Washington summit next April, marking the 50th anniversary of the alliance.

Slovenia and Romania are seen as frontrunners in the next round of Nato expansion. Estonia, Latvia, Lithuania, as well as Bulgaria and Slovakia, are also vying for membership. **Reuters, The Hague**

HEINER FLASSBECK INTERVIEW TIGHT FISCAL AND RELAXED MONETARY POLICIES URGED

Mastermind behind policy

By Wolfgang Münchau and Frederick Stüdemann in Bonn


Heiner Flassbeck: state secretary in charge of international economic policy. W.V. Brauchitsch

Oskar Lafontaine, the German finance minister, may be the most visible face of Germany's new assertive economic policy. But Heiner Flassbeck is the true mastermind behind the policy shift. A well known neo-Keynesian economist, Mr Flassbeck occupies the key position of state secretary in charge of international economic policy. He is Germany's most influential economist today.

Mr Flassbeck, a Saarländer like Mr Lafontaine, has even been tipped to succeed Hans Tietmeyer as president of the Bundesbank, although central bankers wonder whether the rumours originated from Mr Flassbeck's friends or his enemies.

In an interview with the Financial Times, his first since coming to Bonn in October, Mr Flassbeck laid out the German government's economic policy in detail. He warned of an economic slowdown in Europe, and advocated tight fiscal and relaxed monetary policies. He spoke out against unfair tax competition in Europe, and explained why stable exchange rates between the euro and other international currencies were good for the world economy.

Speaking from his office in Bonn, he said policymakers should be prepared for the economic slowdown in Europe as a result of global financial turmoil. He warned that Europe should not repeat the mistakes of the early and mid-1990s, when fiscal and monetary policy were badly co-ordinated among the European Union countries.

He said EU countries had made solid progress in deficit reduction. "From the fiscal side, much is done. That leaves monetary policy. If we have a slowdown of real activity – which we are now facing – and if additionally we have a undershooting of prices below the target, any known concept of monetary policy indicates that these are signals for falls in interest rates and vice versa."

But he firmly denied reports that the German government planned to relax fiscal policy. "There has been a big misunderstanding. I never favoured a fiscal policy expansion in the first round. It is always only as an instrument of the very last resort."

He said moderate wage growth trends in the western economies would ensure that inflation remained low. "If you look at the US or at Europe in the past, you see a very strong correlation between unit labour costs and prices. If unit labour costs remain flat, the danger of an outbreak of inflation – real inflation not some erratic price movement – is extremely low. In such a big, closed economy, it is close to zero in my opinion."

Mr Flassbeck left no doubt that the new German government remains a strong advocate of stability in the value of money. But he used a wider definition of stability that includes both price and exchange-rate stability. Economic and monetary union in Europe was a good example of currency stabilisation, he said: "In Europe, we have learnt the lesson. We are closing the biggest casino – the exchange market – in Europe forever on January 1."

If world economic growth grinds to a halt, pressure grow on Europe to reduce its large current account surplus and absorb third-country exports. "We have the alternative between exchange rate appreciation or more growth in Europe. It is quite clear which one is the better option. If you think of a major appreciation of the euro, combined with weakening economic growth, that would be disastrous not only for Europe but for the US too."

Mr Flassbeck said one of the problems of the world economy was the "desynchronisation of the economic cycle" between the US and Europe. He said it was inconsistent for people to argue that inflation is bad under any circumstances, while at the same advocating depreciation as a remedy against asymmetric shocks. Inflation and depreciation were mirror images, he said.

"Neither inflation nor depreciation is going to help one bit. It is a really strange split of consciousness that people talk about the exchange rate as a wonderful instrument and about inflation as the worst thing that could possibly happen. This is not consistent at all."

He played down Anglo-German disagreements over tax harmonisation, insisting that the German government was not proposing the adoption of unified tax systems. "There are a lot of misunderstandings in the UK about tax harmonisation. We do not say that we cannot have different kinds of tax systems and different structures of tax systems. But we should avoid competition to improve the attractiveness of a certain region as a site for investment by simply cutting tax rates."

Some observers in Germany predicted that Messrs Lafontaine and Flassbeck would moderate their positions once they faced the pressures of office. They may speak in softer tones these days but Mr Flassbeck left no doubt that Germany supported much closer policy co-ordination that it did in the past – among European governments, between governments and the European Central Bank, and within the Group of Seven leading industrialised countries.

Nato soldiers capture Bosnian Serb general

By Gordon Cramb in The Hague and Guy Dinmore in Belgrade

Nato peacekeepers yesterday captured a Bosnian Serb general wanted for alleged crimes against humanity during the 1995 occupation of the Moslem enclave of Srebrenica.

Gen Radislav Krstic was on a secret list of indictments granted by judges of the international criminal tribunal for the former Yugoslavia in The Hague.

He is only the fourth participant in the Yugoslav conflict to have been held as a result of a so-called sealed indictment, where the accused is unaware until his arrest that he faces charges. He is also among the highest ranking suspects to be held.

Gen Krstic is believed to have played a key role in the summer of 1995 when Bosnian Serb forces captured the Moslem-held town of Srebrenica, which had been declared a UN safe haven. Over 7,000 Moslem men are still unaccounted for. Witnesses say many were executed and dumped in mass graves, since excavated by the war crimes tribunal.

In 1995, Gen Krstic was acting under the command of Gen Ratko Mladic, the former chief of the Bosnian Serb army, who is also wanted in The Hague. Gen Krstic would be in a position to clarify what UN prosecutors believe was a chain of command that led from the Serbian footsoldiers who conducted the massacres in Srebrenica up to Slobodan Milosevic, then president of Serbia, in Belgrade.

Nato sources said the general was seized in the eastern sector of Bosnia, an area under the control of US forces. The general's arrest also follows a hardening of US policy towards Mr Milosevic, now president of federal Yugoslavia.

A total of 55 people involved in the war in former Yugoslavia stand publicly indicted. International arrest warrants have been issued for eight, including Radovan Karadzic and Gen Mladic, the then political and military leaders of the Bosnian Serbs.

Javier Solana, Nato secretary-general, described Gen Krstic's detention as a move which would "contribute to the continued consolidation of the peace in Bosnia and Hercegovina".

Judge Gabrielle Kirk McDonald, tribunal president, said it was ready to try not only the generals but also Mr Karadic. "There is no statute of limitations, so at some point I believe he will be tried."

The UN judicial entity, with a budget this year of $64.8m, had added a second and third courtroom to speed procedures. Since its establishment in 1993 it has handed down five sentences, of which all but one are in appeal.

Dublin to legislate on corporate tax cuts

By John Murray Brown in Belfast

Ireland yesterday signalled it would oppose European Union interference in domestic tax policy with Charlie McCreevy, finance minister, announcing plans to enshrine future corporation tax cuts in legislation.

The move, announced as part of the 1999-2000 budget, represents a pre-emptive strike by the Irish, who are concerned that the Germans and other member states opposed to "tax dumping" will seek to unravel Dublin's bilateral tax deal struck with the European Commission in July.

Mr McCreevy said standard corporate tax, currently at 32 per cent, would be reduced to 28 per cent and in equivalent amounts in each of the subsequent four years to reach 12.5 per cent by 2003. He said he was legislating for future tax cuts in the 1999 finance bill "in order to provide certainty for the business sector".

Ireland has a 10 per cent preferential tax rate for manufacturing and financial services and has agreed with the Commission to adopt a common 12.5 per cent rate by 2003.

But Dublin has been one of the main targets of the new German government's assault on unfair tax competition within the EU.

Ignoring hints from the European Central Bank, Mr McCreevy announced an expansionary budget, with current spending up 4 per cent and capital spending increased by 30 per cent.

Earlier this week, Wim Duisenberg, ECB chairman, said if the Irish are "afraid of overheating, and I know they realise that, and they can no longer use monetary policy to correct that, they will have to resort to other policies".

Michael Noonan, finance spokesman of the Fine Gael opposition party, warned the government it was "steering a very dangerous course, steering an economy which is already moving like a bush fire".

With tax receipts at record levels, Mr McCreevy was able to announce the first ever surplus to increase current spending by 4 per cent to I£2.3bn ($3.3bn). Capital spending is increased to I£1.4bn, leaving a general government surplus of 1.7 per cent of gross national product. While income tax remains unchanged, the minister announced a tax relief package of I£561m.

IMF gives glimmer of hope to Russia

By Andrew Jack and Carlotta Gall in Moscow

The head of the International Monetary Fund yesterday held out the hope of new financial aid for Russia early next year, after two days of crisis talks in Moscow with top government officials.

At the end of a meeting with Yevgeny Primakov, the Russian prime minister, Michel Camdessus said: "I salute the efforts of the government. I am certain we will be able in the next few weeks and months to arrive at very solid arrangements." He went on to say that "the government is on the right track".

His comments follow warnings by Russian ministers in the last few days of the risk of hyperinflation triggered by printing money to fill the budget deficit if the country failed to reach agreement for new support from the IMF and other international organisations.

Mr Primakov is believed to have requested a personal meeting with Mr Camdessus after frustration with what he considered excessive demands made by members of an IMF technical mission last month. The IMF has held back on providing a $1.3bn loan due to be paid in September as part of a $15.1bn emergency package agreed in July, in response to concern over the new government's commitment to adequate fiscal and budgetary reform. A further sum was due to be provided this month and the remainder during 1999.

Augusto Lopez-Carlos, a senior economist with Lehman Brothers in London, estimated yesterday that Russia needed $4bn-$5bn in financial support next year both to finance repayments due on its existing IMF loans, and to provide the organisation's "seal of approval" which would open the way to renegotiating its other international debts in an orderly fashion.

China, US at odds over arrest of top dissident

By James Kynge in Beijing

Discord between the US and China flared yesterday over the detention of Xu Wenli, a veteran Chinese dissident who has led attempts to establish China's first opposition party.

Beijing called on foreign countries not to interfere in its internal affairs, in a clear reference to Washington, which earlier criticised Mr Xu's detention. "We view his detention for peacefully exercising fundamental freedoms guaranteed by international human rights instruments as a serious step in the wrong direction," said James Rubin, spokesman for the US State Department.

China's foreign ministry suggested that Mr Xu, who has been detained several times this year only to be released later, might be formally charged. "Xu Wenli is suspected of activities which have harmed national security and his acts have violated relevant criminal codes of the People's Republic of China," the ministry said.

The disagreement between the US and China on human rights stands in contrast to the optimism of just two months ago, when China signed the United Nations covenant on civil and political rights. It is also another irritant in a bilateral relationship which has deteriorated markedly since President Bill Clinton's successful visit to China in the summer.

Other areas of friction include US concern over China's growing trade surplus, and a perception in Washington that Beijing has recently erected several impediments to US companies in China's marketplace.

Xu Wenli outside his home in Beijing: his arrest has angered Washington AP

The detention of Mr Xu as part of a nationwide round-up of the office holders of the Chinese Democratic party on Monday also appeared to signal the start of a tougher line on political activism. China has permitted an unusual level of debate this year on democratic reforms, while thwarting any attempt to set up opposition parties. Now it seems that Beijing's tolerance for dissenting voices may be running out.

The round-up of Mr Xu and 10 other democracy activists has stirred indignation among other dissidents. Nearly 200 issued a letter appealing for the release of Mr Xu and two other important party members, Qin Yongmin and Wang Youcai. Mr Xu, 55, was the party cell chief in Beijing and Tianjin, a northern port city. Mr Qin was detained in Wuhan, on charges of plotting to overthrow the state.

The Information Centre of Human Rights and Democracy in China, a Hong Kong based organisation, said 17 activists would go on hunger strike in various parts of the country to protest against the detentions.

Anwar driver claims he was sexual 'slave'

By Sheila McNulty in Kuala Lumpur

A former chauffeur of Anwar Ibrahim testified yesterday that he had been the "homosexual slave" of the former Malaysian deputy prime minister. It was the most damaging testimony to date in the trial of the man who had been chosen to one day lead Malaysia.

In the name of Allah, Azizan Abu Bakar told the court, he stood by everything he had said in a sworn statement in 1997, when Mr Anwar was still in power.

Mr Azizan had previously retracted the allegations, but police officers have testified that they pressed him to do so on orders from Mr Anwar.

"I have become a victim of homosexual acts by Anwar...This heinous act was committed several times in 1992 against my will...It regularly took place in luxury hotels ... without the knowledge of the public and his wife," said Mr Azizan, who drove for Mr Anwar's wife, Wan Azizah Wan Ismail, and family from 1989 through 1992.

"I had on several occasions tried to resist. His chronic behaviour caused me great mental stress. The feeling of guilt finally overcame me whenever I had to gaze on Azizah, who had such high moral character. Finally I made the decision to stop being a homosexual slave to this man, Anwar Ibrahim, whom I regard as an animal."

Witnesses in the court said Mr Anwar, who has repeatedly gestured to reporters and his family during the trial, did not react during the testimony.

Mr Anwar is accused of five charges of sexual misconduct and five related charges of abuse of power. He denies all of them, claiming they are part of a political conspiracy to prevent him from challenging the 17-year rule of the prime minister, Mahathir Mohamad.

Thousands of Malaysians have reacted to the charges against Mr Anwar by taking to the streets in unprecedented demonstrations calling for justice and an end to Dr Mahathir's rule. Although the street protests have all but subsided under sometimes violent police pressure, the case has divided the nation and split the ruling UMNO party.

Mr Anwar was detained incommunicado for nine days and then emerged bruised and with a black eye, alleging police brutality, while one intelligence officer has admitted he might lie under oath if instructed to do so by his superiors.

Although two other men have pleaded guilty to allowing Mr Anwar to sodomise them, their families have attempted to appeal. The wife of one of the men alleges her husband was forced to make the charges.

Mr Azizan insisted he spoke of his own accord: "I made this statement voluntarily without any form of prompting, urging or pressure from any party.

"Everything is true, for the sake of the community, the nation. Amen," Mr Azizan said.

Public faith wanes in HK civil service

By Louise Lucas in Hong Kong

Hong Kong's civil service, a cornerstone of stability during the territory's return from British rule to Chinese sovereignty last year, is coming under attack with surveys showing waning public confidence in the body.

Criticism is coming from all quarters, including inside the service itself. The government's auditor, in a hefty set of reports late last month, charged some departments with malingering, inefficiency and mismanagement.

Checks on staff found that almost half of the 85 water meter readers turned up for work after their official start time, and seven had lied in clocking on. Adding elongated breaks and early finishes, the average employee worked a 4½-hour day. Malingerers were also uncovered in the census and statistics and government supplies departments.

While these represent a small part of the 180,000-strong service, public outrage has been sharpened by its immunity from recession.

Unemployment in Hong Kong is at a 17-year high of 5.3 per cent, but civil servants have held on to their "iron rice-bowls", or jobs for life. Pay cuts affecting investment bankers, middle managers and shop assistants are not on the agenda.

This has rankled with a number of business chiefs, who would like to see the government take the lead in pay and staff cuts. A limp precedent was set by Hongkong Telecom, one of the biggest private employers: it proposed a 10 per cent pay cut but then backed down.

The government has set each department a target of 5 per cent productivity improvements over three years. "They recognise the need to change, and change very significantly, and they are serious about it," says Nigel Knight, partner at PriceWaterhouseCooper with responsibility for public sector consultancy in Asia.

Such changes could see greater private sector involvement, through privatisation of public services and more outsourcing, and a revamp of the human resources management to create a more streamlined and less bureaucratic body.

The public is also increasingly disenchanted with the civil service. Confidence was most recently dented by revelations that Andrew Leung, director of social welfare, detoured to London on a first class air ticket on the way to a seminar in Israel. Mr Leung has offered to repay the difference, but the integrity of senior officials remains tarnished.

Departments have been accused of malingering, inefficiency and mismanagement

The Hong Kong Transition Report, an ongoing survey conducted by three universities, found that the rates of satisfaction with top government officials had slumped during the year.

Even Anson Chan, who heads the civil service and remains Hong Kong's most popular official, scored lower than the mainland's two top leaders – a result few would have predicted before the handover, when the biggest fear was interference from Beijing.

Newman Lam, who worked on the project, points to issues ranging from the audit to the government's handling of the financial crisis.

In August and September, the government intervened in the stock market and began enforcing a stock market rule only cursorily observed, catching many investors short.

"These are not the things that instil a lot of confidence in the government," he says.

Futures foray leads to profit

By Louise Lucas

The Hong Kong government made a profit of some HK$350m (US$45.2m) from its purchases of futures and options contracts, it was revealed yesterday.

The purchases were made when the government launched its unprecedented foray into the stock market in August, spending HK$118.1bn on shares.

While it has subsequently disclosed the make-up and cost of its share portfolio, no details were given about futures purchases, though later it admitted buying some 48,000 futures and options contracts.

All positions have since been closed, netting a profit of HK$350m. The biggest holding was in August HSI futures, of which the government bought 36,935.

The futures market was in the spotlight during August for its integral role in the speculators' "double play". By attacking the currency, which invariably sent the stock market lower, speculators were able to profit from futures positions which bet on a lower close on the benchmark Hang Seng Index.

The government sought to frustrate this ploy by shoring up the stock market, while higher interest rates – automatically triggered by Hong Kong dollar weakness under the currency board mechanism which pegs it to the US dollar – raised the cost of borrowing.

● China's planned securities law would ban banks from trading on the securities market, the official Shanghai Securities News said yesterday, **Reuters reports from Shanghai**.

The Asian financial crisis had shown the wisdom of barring banks from trading in securities, the newspaper quoted China's parliamentary chief Li Peng as saying.

"There will be unfair competition if banks participate in trading on the securities market because banks have large amounts of money while retail investors' funds are limited," he said. Lawmakers had agreed China's fledgling markets were not yet ready for securities' futures trading, he said.

Tamil Tigers' offer welcomed

By Mark Nicholson in New Delhi

A senior Sri Lankan minister has welcomed as "promising" the offer of mediated talks made last week by V. Prabhakaran, leader of the Liberation Tigers of Tamil Eelam, the guerrilla force against which the Sri Lankan army is fighting in the island's north-east.

G.L. Peiris, Sri Lanka's minister of justice and constitutional affairs, said in New Delhi that the Sri Lankan government was willing to talk with the Tamil Tigers and would not insist on a Tiger ceasefire first.

But, while Mr Peiris said the government would welcome a third country as a "facilitator" to such talks, it rejected Mr Prabhakaran's call for third-party "mediation".

"The gap appears to be between mediation and facilitation," he declared, adding that agreeing some common formula for third-party help might not be "unbridgeable". Several countries, including the UK, have offered their "good offices" to help solve the island's conflict.

The People's Alliance government of Chandrika Kumaratunga opened talks with the Tamil Tigers soon after taking office in 1994, but negotiations broke down the next year.

The government has tabled a revised constitution to address the Tamil minority's grievances, but failed to win opposition party support.

● Sri Lanka's ethnic war has made the economy in its northern province shrink, pulling down the country's overall growth rate, the United Nations Development Programme says, **Reuters reports from Colombo**.

In its National Human Development Report on Sri Lanka, released yesterday, the UNDP said the conflict cost the economy at least 1 per cent growth a year.

"The size of the overall economy of the northern province shrank from $350m in 1990 to $250m in 1995," the report said. "This represented a negative annual average growth of 6.2 per cent per year."

India tourism 'could develop 8m jobs'

By Elizabeth Robinson in London

Travel and tourism in India could create 8m jobs and account for 12 per cent of the country's exports by 2010 if the country implements a long-term strategy.

This aim was set out by Geoffrey Lipman, president of the World Travel and Tourism Council (WTTC), the business leaders' forum, when speaking at the World Economic Forum in New Delhi.

Travel and tourism already accounted for 10 per cent of India's exports and these activities were growing faster than the world average, Mr Lipman declared.

A WTTC study had found that the industry's contribution to exports was expected to grow from Rs230bn ($5.4bn) to Rs1,600bn by the year 2010.

"This is not a leisure pursuit of the elite, it is a business that drives economies and changes societies for the better," Mr Lipman added.

He called on India to involve the private sector, in order to focus on training, developing infrastructure and liberalising airlines.

Japan's finance watchdog starts to sharpen up its teeth

The supervisory agency has infuriated many banks and one of them, Nippon Credit Bank, has threatened legal action. But the agency's biggest test could come soon, writes **Gillian Tett**

Nippon Credit Bank has been so incensed with the way Japan's Financial Supervisory Agency (FSA) has been implementing a banking inspection that it has threatened legal action.

The bank has yet to act on its threat, which is similar to one made by Long Term Credit Bank of Japan earlier this year but dropped when the bank was nationalised.

NCB's threat is striking. Japanese regulators have traditionally enjoyed cosy relations with the banks they monitored. Consequently, the battle has now left some observers wondering if the watchdog might be finally preparing to use its teeth.

If so, this might surprise many western investors. For when the FSA was founded six months ago, it appeared to epitomise some of the worst aspects of Japan's policy-making process.

The decision to create the FSA, for example, was taken only after it emerged that the finance ministry had become involved in a scandal with the banks it was supposed to be regulating.

At the time, the government claimed that creating the FSA would shake off the problem by creating a truly "independent" regulator in Japan for the first time.

But this claim was undermined when it emerged that the FSA would be located in a ministry annexe and largely staffed by former ministry bureaucrats. Market confidence was further dented when the FSA launch was delayed by a battle over who would head it.

By last spring, the institution seemed in such chaos that European banks issued a statement warning that FSA problems could undermine "Big Bang" deregulation moves. But since then, the FSA has started to find its feet. It has hired about 400 staff, moved to a new office, and embarked on a series of bank inspections.

It has drawn up new guidelines for bank reporting and accounting standards, and is turning its attention to other "trouble spots" in Japan's financial world, such as the insurance sector. The FSA angered many private banks by insisting that next spring they report bad loans at subsidiaries. It has provoked dismay by devising new "bad loan" standards. But its biggest test could come soon.

The agency is now completing an inspection it started in August into the top 19 banks. These results will be critical in implementing the government's plan to inject up to Y25,000bn ($204bn) of public funds into the banks' capital base.

The FSA, like the ministry of finance and Bank of Japan, believes that a large fund injection is needed to force the banks to write off their pile of bad loans. All three institutions want this to be part of broader restructuring that would remove the weak banks from the system through mergers or nationalisations. This vision has utterly appalled the weak banks.

They have been shocked by the treatment of the former management of Long Term Credit Bank. Consequently, the banks have indicated they will apply for only Y5,000bn of funds, partly because they do want to expose themselves to more restructuring demands.

The FSA inspection could yet prove a crucial weapon in this fight. For the FSA's new powers give it the right to punish any bank which does not meet capital adequacy standards – as measured by the FSA.

So far, the FSA is still using this power gingerly. It claims, for example, that the top 19 banks have only misclassified their loans by between Y5,000bn and Y10,000bn ($41bn-$82bn) out of the Y50,000bn problem loans held by these banks (and Y87,000bn in the entire financial sector).

Though three banks were found to have particular problems, reporting standards of at least 10 were deemed good. But potential flash points remain.

NCB, for example, is scrambling to find a merger partner. None has yet appeared. Meanwhile, NCB is one of the few Japanese banks that have not promised to apply for public funds, even though problem loans account for 40 per cent of its lending.

"We are entering a period of sink or swim for Japanese banks. I think NCB will find it difficult to swim," argues James Fiorillo, analyst at ING Barings. Or, as an analyst at a large US bank adds: "The market consensus is that the government will have to act soon on NCB."

هكذا من الأهل

EXTRADITION DEBATE GENERAL'S COMPATRIOTS WANT HIM TRIED, ACCORDING TO FIRST POLL SINCE HIS ARREST

Chileans believe Pinochet guilty

By Imogen Mark in Santiago

An overwhelming majority of Chileans believe General Augusto Pinochet committed genocide, torture and hostage-taking. In the first national opinion poll taken in Chile since the former dictator was arrested in London in mid-October, 64 per cent said he was guilty, and only 16 per cent innocent.

A solid majority, 57 per cent, were in favour of a trial if the general was returned to Chile, and 66 per cent did not believe Chilean democracy was in danger.

The door-to-door poll was carried out by the Chilean franchise of Mori, the international polling agency, as part of its regular national survey.

This was the first time, according to Marta Lagos, Mori director, that it had ever framed such direct questions about Gen Pinochet's role in the human rights abuses committed during his 17 years in power.

The reason, of course, is that for the first time since he took power in 1973 the former dictator is powerless and away from Chile. He is in detention in Britain, facing extradition to Spain to stand trial for acts of torture and hostage-taking.

Before the general's arrest last month, Ms Lagos says, "no one wanted to talk about human rights. Last week we ran some focus groups and we couldn't get people off the subject."

The latest findings throw up some interesting statistics. Asked whether it was "a good or a bad thing that Pinochet has been detained", 44 per cent said it was good, but 45 per cent said bad.

Ms Lagos thinks the majority feeling against is a nationalist sentiment of offence that foreign powers, Britain and Spain, are intervening in Chile's internal affairs.

Other, smaller opinion polls over the past month have found that more than 50 per cent of Chileans think Gen Pinochet should be judged in Chile, not abroad, and this is the position strongly held by the Chilean government and the rightwing opposition.

One other conclusion, according to Ms Lagos, is that "this is an issue of the establishment, it's not one that moves the mass of people". Asked, "How does Pinochet's detention affect you and your family?" 71 per cent cent said "Not at all". A mere 6 per cent said it made them happy, 5 per cent were sad, and 2 per cent angry.

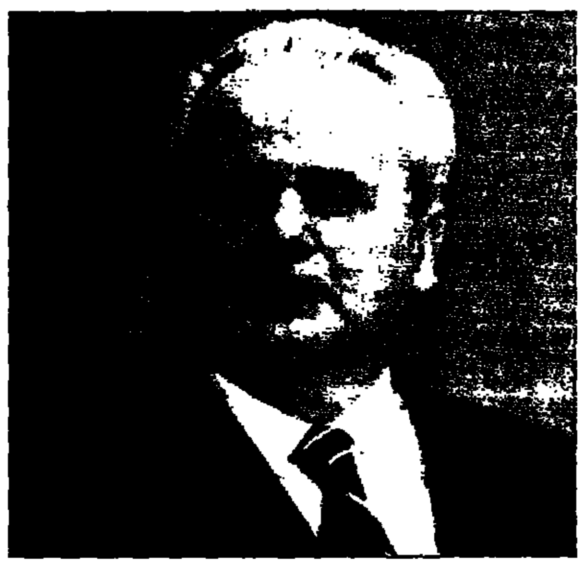
This helps explain the lack of mass reaction to the UK House of Lords' ruling last week which cleared the way for the general's extradition pending a final decision by the British Home Office. There have been only two organised demonstrations, one by his supporters, the other by his opponents, since the general was arrested. There have been threats and rumours of reprisals, and a spate of bomb scares and hate mail to British and Spanish diplomats.

But so far there has been nothing more than ritual flag-burnings, small demonstrations and vigils outside the British and Spanish embassy residences, and in recent days some brief sit-ins on the highways out of Santiago by 20 or 30 of the general's supporters, mostly women.

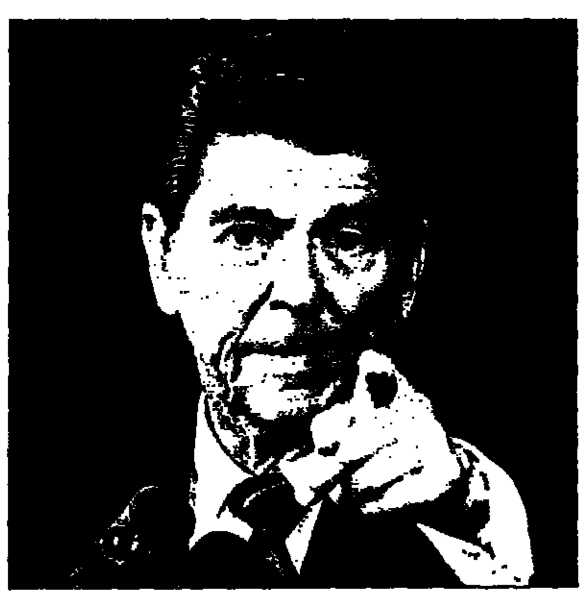
In a separate section of the survey, the Mori team tested the impact of the case on voter intentions – Chile has presidential elections next December – and found they were virtually unchanged by the Pinochet case.

The leftwing presidential hopeful, Ricardo Lagos, is still well ahead, with 32 per cent of voter preference, followed by the rightwing Joaquín Lavín with 15 per cent. Of the two centre, and less charismatic, candidates, Andrés Zaldívar for the Christian Democrats takes 10 per cent of votes, and Sebastián Piñera, a businessman, 3 per cent.

Letelier: Chilean murdered on US soil



Milosevic: would he have gone to Dayton?



Reagan: could he be tried for bombing Libya?

Nowhere for a dictator to hide in the global village

Globalisation extends to human rights issues too – and other former leaders should take note. **Stephen Fidler** sees the US relieved it will not decide Pinochet's future

As General Augusto Pinochet waits in the Surrey countryside for a decision by a British politician on whether he can be extradited to Spain to face trial, Washington has come down firmly on neither side of the controversy.

The US reaction so far has constituted "fence straddling", a US official admitted this week, reflecting what he said was an internal debate within the administration about how Washington should react to the case.

Washington has condemned the human rights abuses of the Pinochet era – but said that the views of the Chilean government, which wants the general returned home, should be listened to.

This week, the State Department announced it would declassify US documents that shed light on abuses by his government. But – reflecting the debate inside the administration – it has refrained from giving an opinion on the UK House of Lords' ruling that the general was not entitled to sovereign immunity for human rights crimes.

The case has created an obvious dilemma for Washington. "On the one side, the US has very close relations with Chile – and owes it something because it could not bring it into the North American Free Trade Agreement as promised – and supported the whole approach taken by Chile to its democratic transition," said Peter Hakim, president of the InterAmerican Dialogue, a Washington think tank.

"On the other, there are the human rights considerations, particularly when there is so much pressure from human rights groups around the world."

The delicacy of the human rights issues are further heightened by the fact that one act of violence perpetrated by the Pinochet regime took place in Washington's Embassy row: the 1976 car bombing and murder of Orlando Letelier, an exiled former Socialist cabinet minister, and his US assistant, Ronnie Moffitt.

No evidence has been found linking Gen Pinochet directly with the murders, but the intelligence chief, Manuel Contreras, has been sentenced in Chile for his role.

At the heart of Washington's dilemma is a question being asked by governments in capitals around the world following last week's ruling: What does this decision mean for us?

At its most extreme, one consequence is that current and former US officials could find themselves pursued through foreign courts for their actions while in office: Ronald Reagan's bombing of Libya, or Bill Clinton's of Sudan and Afghanistan, for example.

The ruling also has potential implications for all countries where a transition to democracy has taken place, such as South Africa and most of Latin America.

It could also potentially inhibit future transitions, for example in Cuba, and raises questions about whether the 1995 Dayton peace accord on Bosnia – which brought Serbian president Slobodan Milosevic and the Bosnian Serb leader, Radovan Karadzic, to the US – could have taken place if they feared they could end up in US courts.

Moreover, it raises the possibility that human rights cases against foreigners will be pursued in an ad hoc fashion around the world, most often in countries which have least at stake in any resulting controversy.

According to Bernard Aronson, an assistant US secretary of state for Inter-American affairs from 1988 to 1993: "I think the whole issue points to a large gap in international law that has to be filled." That suggests the ruling has strengthened the case for an international court on human rights, a creation that the US has in the past resisted.

Mr Aronson says the Pinochet case should not be viewed as an isolated incident. "It's part of a much broader trend of globalisation that's not only economic but also covers issues such as the environment, human rights, workers' standards and workers' rights. This case is happening in the transition period where we haven't gone far enough in confronting these issues."

Whatever, the long term consequences, Gen Pinochet's immediate fate is in the hands of Jack Straw, the UK home secretary (interior minister). His decision is one officials in Washington say they they are pleased they do not have.

Mr Hakim says the ball is now in the Chilean court. With the Chilean government no longer able to argue sovereign immunity, it will have to demonstrate to Mr Straw that if the general returns home, things will not stay the same.

Many doubt that the general can be effectively tried in Chile, and some fear the effects on Chilean society if this happens.

Mr Hakim says it may be time to extend the work of the country's Truth and Reconciliation Commission, which detailed human rights abuses and their victims in a 1991 report. It never named the perpetrators.

Mr Hakim says now may the time for that to happen.

NYSE board votes today on quitting Wall Street

By John Labate in New York

The two-year fight to keep the New York Stock Exchange on Wall Street is expected to be resolved today as 26 NYSE board members vote on the latest proposals made by New York City and state authorities.

The NYSE has long said it has outgrown its trading space in its historic home in lower Manhattan. An aggressive push for more domestic and foreign listings is adding more pressure for the exchange to add to its already cramped trading floor operations.

The attempt to keep the NYSE in Manhattan is considered vital for the tax revenues the exchange generates and local prestige.

Both city and NYSE officials were tight-lipped yesterday about the likely decision, with the NYSE saying it had not yet made up its mind. The favoured proposal is believed to include an expansion or move by the exchange to a block of buildings across the street from 11 Wall Street to number 28, a building that once housed J.P. Morgan.

It is not clear whether the NYSE would abandon the building it has traded in since 1903 or move its entire operations to a new high-rise complex.

Trading on Wall Street dates back to the 1790s, and the NYSE's original trading building was located at 40 Wall Street.

The threat to leave Manhattan for New Jersey set off a round of intense negotiations in the spring, resulting in what has been called the largest subsidy offer in New York City history, at some $160m. The other New York plan, said to be still under consideration, is a move to Battery Park City, off Wall Street but still in lower Manhattan.

Until recently the NYSE appeared likely to move from its historic Wall Street address either across or out of town.

Owners of property near the NYSE's current Wall Street address were said to be unwilling to sell out, forcing government officials to try a more aggressive approach.

A move to Battery Park would involve the construction of a new headquarters and trading building. Throughout the negotiations, the NYSE has said it considers a move to nearby New Jersey a possibility, creating an effective bargaining tool against the city and state.

The NYSE decision will come at a time of growing consolidation in US exchanges.

The second largest exchange market, the National Association of Securities Dealers, is considering a new New York City headquarters, and is expected to move to a site in midtown near Times Square.

The Nasd, which regulates the Nasdaq market and recently merged with the American Stock Exchange and the Philadelphia Stock Exchange, is currently based in Washington DC.

Changes in SEC rules approved

By John Labate and Agencies in New York

The US Securities and Exchange Commission yesterday approved its most far-reaching changes to its regulatory framework in decades, designed to keep pace with rapid changes in trading technology.

At the centre of yesterday's rulings are changes in the regulation of "alternative" trading systems. They will be required to register either as exchanges or as broker-dealers with the SEC.

Such systems, which account for as much as 20 per cent of transactions in Nasdaq-traded stocks and 4 per cent of all trades in the US markets, have been required to register as broker-dealers, having their trading operations regulated by one of the traditional US exchanges.

Under the new rules, adopted in a unanimous 5-0 vote, the SEC gives the trading systems the choice of being treated as a market, or as a market participant.

Given the chance, two or three alternative trading systems might become exchanges, predicted Richard Lindsey, director of the SEC's division of market regulation.

Name-brand cachet associated with stock exchanges might prompt some to make the switch, said Mr Lindsey, while others might be prompted by financial reasons.

Another advantage was that registering as an exchange would allow an organisation to be self-regulating, which was not available to broker-dealers.

There are about 50 electronic systems which compete directly with traditional exchanges such as the New York Stock Exchange and the Nasdaq stock market. They include Instanet, the electronic trading system that operates after the close of the market.

"We're trying to keep abreast of emerging technology and provide flexibility to new technologies and existing markets and exchanges," said Chris Ullman, SEC spokesman.

Yesterday's announcement also includes provisions to speed up the introduction of new products by the traditional exchanges.

The changes will allow the exchanges to introduce pilot programmes for a period of up to two years without the need to gain approval from the SEC.

"Technology is fundamentally changing our marketplace," Arthur Levitt, chairman of the SEC, said. It "has caused us, as regulators, to rethink the way we do our jobs."

NEWS DIGEST

MAD COW DISEASE

EU plan to ease friction with US is voted down

The threat of friction between the US and the European Union over drugs and cosmetics trade was resurrected yesterday after 10 EU nations voted against European Commission proposals for fighting BSE mad cow disease.

The vote means that an earlier proposal – forcing countries to remove specified risk material of cattle – remains on the table along with a clause that could halt imports of cosmetics and drugs containing cattle parts from January 1. Franz Fischler, EU farm commissioner, must now find a solution to a problem which has dogged the Commission for 18 months. The Commission never intended to disrupt cosmetics and drugs trade in its original proposal but has been unable to persuade member states to adopt different proposals to fight BSE. Member states oppose the latest BSE strategy for a variety of reasons, none of them related to the drugs and pharmaceuticals trade. There is strong resentment about a plan that would force member countries to adopt different strategies against BSE depending on the incidence of the disease in their countries. **Michael Smith, Brussels**

WEAPONS DEAL

Greece asks for US arms

Greece has asked to buy four second-hand US Kidd Class guided-missile destroyers and weapons systems in a $742m deal which is part of a medium-term procurement programme to modernise its armed forces.

The sale requires approval from the US Congress but a Greek official said yesterday delays were not expected because "it would not affect the existing balance of power in the Aegean". Greece has a stronger naval presence, but Turkey, its nominal ally in Nato but rival for control of the Aegean, has air superiority.

The destroyers would be equipped with Standard anti-aircraft missiles, Harpoon anti-ship cruise missile and torpedoes.

Greece has already placed an order with HDW of Germany for new submarines. It also plans to buy fast attack boats which would be based in the eastern Aegean Islands close to the Turkish coast. **Kerin Hope, Athens**

DRUG PATENTS

Canada takes EU to WTO

Canada yesterday filed a complaint with the World Trade Organisation claiming that European Union patent rules for pharmaceuticals and agrochemicals breach the WTO's agreement on intellectual property protection.

The Canadian complaint comes a week after the EU demanded a WTO dispute panel to investigate Canada's alleged failure to provide adequate patent protection for pharmaceuticals. Though the panel request was blocked by Canada, under WTO rules a panel must be established the second time of asking.

The EU and Canada have been at loggerheads over Canadian laws allowing generic drug makers to copy patented medicines before the patent expires so as to have the copies on the market immediately afterwards. Brussels claims this costs its drugs industry hundreds of millions of dollars a year. **Frances Williams, Geneva**

FOOD SAFETY FARM MINISTERS EXPECTED TO ENDORSE COMMISSION PLAN TO BAN ADDITIVES

EU to ban four animal feed antibiotics

By Michael Smith in Brussels

European Union plans for a controversial ban on four antibiotics used in animal feed seems certain to go ahead after winning the endorsement of 10 member states.

The vote among the 15 countries of the EU fell short of the qualified majority needed by the European Commission, the EU's executive, to implement the ban.

However, the issue will now go to farm ministers at their monthly meeting in mid-December and it would take opposition from eight of them to defeat the Commission's proposals, thought to be highly unlikely.

The ban, to be implemented from January 1, could cost the four companies which make the antibiotics at least Ecu300m ($350m) a year in lost sales.

The drugs are Spiramycin (manufactured by Rhone-Poulenc), Virginiamycin (Pfizer), Tysolin phosphate (Elanco) and Bacitran zinc.

The companies argue that the ban is unjustified. Fefana, an industry organisation representing feed manufacturers, says scientific studies over 30 years showed there is no significant risk to human health posed by antibiotics used in animal feeds.

"The use of antibiotics in animals is safe and has contributed significantly to improvements in animal welfare and the quality of meat for consumers," it said.

However, Franz Fischler, EU farm commissioner, argues that the use of antibiotics in animal feed could build up bacterial resistance in humans to drugs.

He says the four antibiotics should be banned because either they or closely-related antibiotics are used in human drugs. Although other commissioners have yet to endorse his proposed ban, this is considered a formality.

In yesterday's vote at an EU scientific committee, representatives from only three member states – Spain, Italy and Portugal – were against a ban.

The representatives from France and Italy abstained. EU officials believe the vote now necessary among farm ministers will produce a stronger result in favour of the ban.

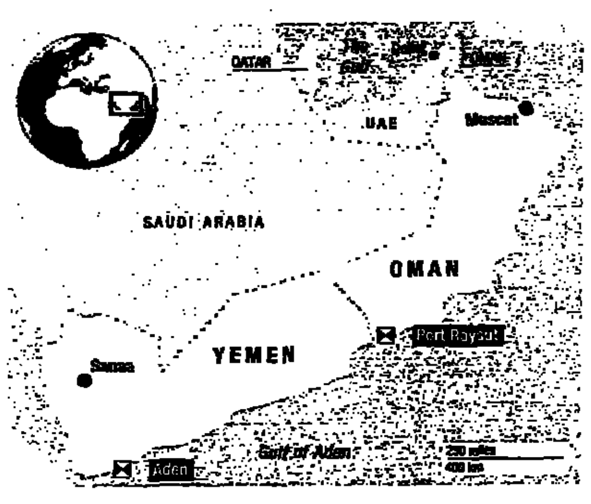
The four antibiotics facing a ban are among eight licensed for use in animal feed, mainly for pigs and poultry, in the EU. Sweden and Finland have exemptions to some of the bans.

Separately, the Commission yesterday proposed a ban on two feed additives made by Pfizer and Bayer saying they too could endanger human health.

The EU's cautious approach to food safety is causing trade friction with the US.

Arabian fights as state-of-art ports vie for scarce business

The Asian financial crisis has thrown out calculations for new ports being built in Yemen and Oman, reports **Maurice Gent**



Over the past few years many millions of US dollars have been committed to building two state-of-the-art ports on the southern coast of the Arabian peninsula.

When the projects were drawn up, trade between the east coast of the US, Europe and Asia was growing fast. For this year a growth figure of 9 per cent was predicted. Both the Omani project at Port Raysut which received its first ships this week, and the Yemeni container port at Aden, expected to open next March, were confident of commercial success.

The previous conventional wisdom in the shipping industry was that there could well be room for both. But that is now being reassessed.

At a recent shipping conference in Dubai the management companies behind these two projects were questioned closely about who was going to use all this new capacity.

Salalah Port Services, the management company running the Port Raysut project, was able to come up with convincing answers in terms of traffic flow, while the Port of Singapore Authority, which is to run the Aden operation was unable to be so specific.

Aden at first sight would appear to have the edge – a superb geographical position for a hub container port, where large vessels can offload their cargoes for the ports of East Africa and the Inner Gulf. In the Port of Singapore Authority it has a first class management highly thought of in the shipping industry.

The opposite is the case, however, and the whole equation hangs on one phrase – "political stability".

At Oman's Port Raysut Sea Land of the US, which manages 28 terminals around the world, has committed itself to a very large up-front investment. So has a leading European carrier, the Danish line, Maersk, also in the top five. The government has contributed about $130m for the infrastructure and Salalah Port Services, in which the two shippers have an interest, has spent approximately the same amount again on superstructure.

Although their spokesmen keep well clear of commenting on regional politics, neither company would have committed itself to Yemen, which has become notorious for its unstable political record.

Since the British withdrew from Aden in 1967, leaving two rival groups fighting for power, there has been tribal conflict and civil war. There have also been not infrequent kidnappings of business executives and aid workers in the interior.

Oman, however, since the accession of Sultan Qaboos in 1970 has built itself up as a conciliator with good relations both with the west and other regional powers.

Oman has built good relations both the west... That is why the big western investment has gone there

That is why the big western investment has gone to Oman whereas the Aden project has relied on Yeminvest, a Saudi company, which has looked to Yemeni and Saudi investors. Commercial banks are supplying loans for Aden's $250m first phase but these are subject to political risk guarantees by the World Bank and its private sector affiliate, the International Finance Corporation.

In the Oman project both Sea Land and Maersk have a 15 per cent interest in the management company, Salalah Port Services. Between them they operate about one-third of the total container fleet in the region, and when Port Raysut opened on Tuesday it received container vessels from the two groups.

Both have committed themselves to a 30-year partnership with the government of Oman and have pledged to use the port as a link in their US east coast, Europe and Asia container shipping route. High on the list when presentations are given to potential customers is the stability of Oman.

Salalah Port Services' chief executive, Jack Helton, has been seconded from Sea Land to run the project along with several other senior executives from the Middle East and Europe.

Mr Helton and his colleagues have become closely involved with plans for developing a larger conventional port, which will also take cruise ships. As part of the deal he is also content to accept conditions laid by government – that more than 50 per cent of the work force should be Omani rising to 60 per cent as the project gets under way.

Already Omanis have been sent to Sea Land's Hong Kong operation and have come back ready to operate cranes worth more than $5m each.

Consensus sought on new WTO leader

By Frances Williams in Geneva

World Trade Organisation members yesterday agreed to aim for a consensus decision on a new director general by mid-December, if possible by the end of next week.

The two WTO ambassadors charged with consulting the WTO's 132 members on who should succeed Renato Ruggiero of Italy next May job gave no hint of the leaders and laggards among the four rival candidates when they made their first report to the WTO's general council yesterday.

Swiss ambassador William Rossier and Celso Lafer of Brazil said merely that consultations with some 70 members representing 90 countries had shown that the candidates "did not enjoy equal levels of support."

At the same time, countries had indicated that they would not block a consensus on any of the four who are all considered well-qualified.

Hassan Abuyoub of Morocco has the backing of African and Arab states, while Thailand's Supachai Panitchpakdi is supported by the Association of South East Asian Nations, Japan, Australia and Norway.

Latin America, which does not have a candidate of its own, is said to be divided between Roy MacLaren of Canada and New Zealander Mike Moore.

Meanwhile, the US and European Union, the two trade superpowers, have not yet declared their positions, with the 15 EU members apparently split between Mr Supachai and Mr Abuyoub. Trade envoys said the situation could change when the EU and US make their stands known.

Ambassadors Rossier and Lafer are due to report again to the general council next Thursday when it is hoped a decision can be made.

Though the aim is to reach consensus, the normal way in which the WTO conducts its business, if this fails WTO rules provide for a decision by simple majority vote.

Most WTO members, however, would probably opt for a delayed consensus decision early next year rather than force the issue to a vote next week. No vote has ever been taken on appointing a director general for either the WTO or its predecessor, the General Agreement on Tariffs and Trade, since 1948. During the bitter selection fight in 1995, in which Mr Ruggiero, the EU candidate, was finally victorious, a poll of members was published showing him clearly in the lead.

However, this was not a formal vote but a way of putting pressure on Washington to abandon its veto of Mr Ruggiero's appointment.

EU expected to form single power market

By Andrew Taylor, Utilities Correspondent

The European Union within 20 years will have a single power market increasingly dominated by gas-fired electricity generation, according to a study due to be published later this week.

A switch to smaller, cleaner, natural gas-fired power stations providing local heat and electricity to towns and cities will reduce the need for large remote power stations served by traditional coal mining industries, says the research by Andersen Consulting.

It expects liberalisation of EU electricity markets to encourage cross-border power trading as customers and suppliers increasingly rely on futures contracts and other derivatives to protect against volatile electricity price movements.

Under a Brussels directive most member countries must open 25 per cent of their electricity market to competition from next February, rising to 33 per cent in 2003.

Power trading markets, already being developed in Britain, Scandinavia, Spain, the Netherlands and Switzerland, will reduce the relevance of national borders and allow electricity to be traded like any other commodity, says Gill Rider, head of Andersen's north European utilities practice.

Scottish Hydro-Electric, the UK generator, recently signed Europe's first electricity weather derivative with Enron of the US to protect itself against surges in power prices and demand during prolonged cold weather.

Attempts by politicians to protect indigenous energy industries, such as coal mining, provide the biggest obstacle to competition. Protectionism, however, is likely to founder in the face of customer demands for lower prices, forecasts the report.

Mrs Rider says: "As consumers start to see lower energy prices in other countries, governments across Europe will be forced to examine the economic consequences of protectionism on both the country's utilities and its manufacturers.

"We believe that liberalisation will create customer demands for cheaper power to which even the most dedicated nationalists and protectionists will have to yield."

Pressure for cheaper, cleaner power will encourage construction of small natural gas-fired power stations which will be able to provide heat and electricity to individual factories and local communities.

Partnerships between industrial companies and power producers to develop cogeneration plants already are increasing, says the report. RWE, the German multi-utility, for example, is contracted to establish and run combined cycle gas turbine plants for BASF, Bayer and Opel.

Construction of smaller, more efficient plant will reduce the need for large unsightly national transmission networks, cutting the potential for price manipulation due to transmission constraints.

Cogeneration gas plants can achieve 65-75 per cent efficiency compared with 30-40 per cent for a traditional coal-fired power station, says Andersen. It expects 30-40 per cent of European power by 2015 to be generated by gas, compared with just 7.5 per cent in 1992.

It says that more than 70 per cent of the world's natural gas is "deliverable into Europe from such gas-rich areas as the North Sea and Russia".

Egypt's human rights group leader arrested

By Mark Huband in Cairo

Egyptian police yesterday arrested the secretary general of the country's main human rights organisation, after accusations that the British embassy paid it to write a report which exposed police brutality against civilians.

Hafez Abu Seada, secretary general of the Egyptian Organisation for Human Rights (EOHR), was arrested and committed to 15 days' detention after being accused of treason and false reporting by a Cairo newspaper, el-Osboa. He faces a prison sentence with hard labour if he is found guilty.

The newspaper claimed "an enemy foreign embassy" on October 8 1998 paid the EOHR $25,703 to write a report on a month-long murder investigation carried out by police in the Egyptian town of Al-Kosheh in August.

During the investigation, up to 1,200 people, mainly minority Coptic Christians, were interrogated as police attempted to find the murderer of two Moslems. Many of those interrogated were tortured and their experiences were brought to light when the EOHR investigated their claims.

The government has been embarrassed by the exposure of the brutality, which the EOHR report and other witnesses concluded was not anti-Christian, but simply exposed the poor relations between the police and civilians in general.

The arrest of Mr Abu Seada is regarded by human rights organisations as a backlash by the security forces in response to the revelations.

The accusations made by Mustapha Bakri, el-Osboa's editor-in-chief, are based on a bankers' draft sent by the British embassy in Cairo to the EOHR specifically to finance a legal advice centre for Egyptian women, which the embassy had funded since 1996 when it took over financing of the centre from the Dutch government.

Speaking from abroad through a journalist at the newspaper yesterday, Mr Bakri said that "the linkage between the embassy cheque and the al-Kosheh report was based on the length of time between the two, and the fact that it was the first time the British embassy had issued [such] a cheque".

The newspaper offered no conclusive proof to substantiate its accusations. However, Egypt's state security prosecutor ordered Mr Abu Seada's arrest on the basis of its claims. A British embassy official yesterday insisted the sum granted to the EOHR was for the legal aid project and was deposited in a special account for this purpose and for which an annual financial statement would be required.

The government is regarded by human rights activists as having embarked on a campaign to vilify the EOHR for highlighting the police brutality, without taking steps to curb police excesses.

The fact of the accusations having appeared in el-Osboa has, in itself, raised suspicion among human rights lawyers.

Associates of Mr Bakri are known secretly to have recorded an EOHR board meeting which followed publication of the newspaper's claims, at which it was agreed the money would be returned to the embassy and that all future foreign donations would be rejected as a demonstration of its neutrality.

WORLD BANK GLOBAL ACTION URGED TO STEM ECONOMIC TROUBLES AND REVIVE DEVELOPING WORLD PROSPECTS

Growth plea to aid poor countries

By Robert Chote, Economics Editor

Developing countries face a precarious short-term outlook which demands that policymakers in industrial countries do more to avert a global slump, the World Bank warned yesterday.

In its annual report on Global Economic Prospects and the Developing Countries, the Washington-based institution said that incomes per head in the developing world would on average increase by just 0.4 per cent this year, down from 3.2 per cent in 1997.

The financial crises that have swept emerging markets over the last 18 months mean that incomes per head will fall this year in Brazil, Indonesia, Russia and 33 other developing or formerly communist countries.

Per capita growth is expected to remain slow next year, but could return to the 3.5 per cent pace of recent years thereafter. But the Bank warned that this reassuring scenario was not a foregone conclusion.

"There are substantial risks that the world economy will fall into recession in 1999 rather than merely enduring the period of sluggish growth expected in the baseline," the report said. "These risks are strongly interconnected and potentially mutually reinforcing."

To assess the downside risk, the Bank assumed that the recession in Japan worsened, that private sector capital flows to Latin America ceased and that stock market falls of 20-30 per cent depress growth in the US and Europe. Under this scenario the world economy suffers a severe recession next year and per capita incomes in the developing countries as a group fall for the first time since the early 1980s debt crisis.

"Growth in developing countries could still reach the record-setting rates that we saw in 1991-97," said Joe Stiglitz, World Bank chief economist. "But this will only happen if policies to prevent a deeper global slump are implemented quickly and developing countries strengthen their financial sectors."

The Bank welcomed recent policy responses to the crisis, including industrial country interest rate cuts, stimulus measures and structural reform in Japan, fresh financing for the International Monetary Fund and the Brazilian rescue package. "But policies take time to work and the short-term outlook remains precarious," the Bank cautioned.

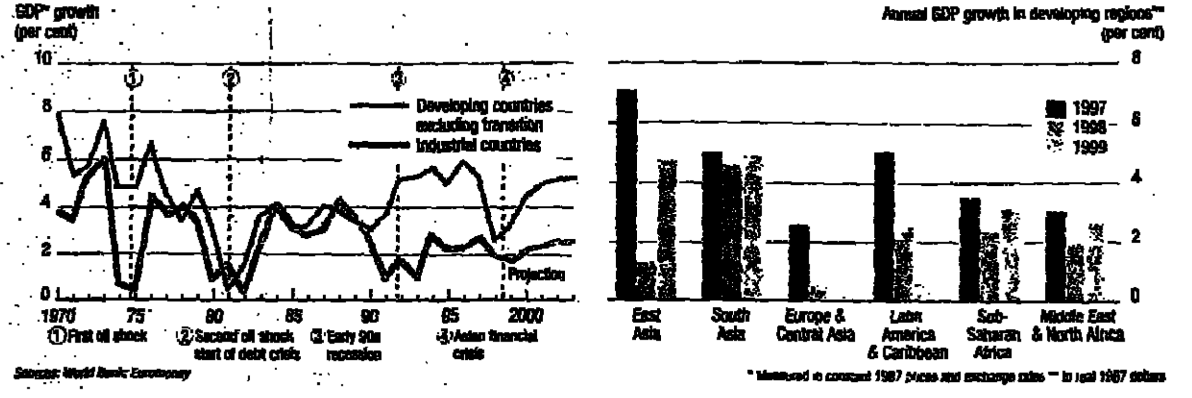
The report also described the policy lessons that should be learned from the crises. Mr Stiglitz has incurred the wrath of some colleagues in the international financial institutions by publicly casting doubt on the IMF's prescriptions for crisis-hit nations.

For example, the report casts doubt on the wisdom of imposing substantial interest rate increases to restore confidence in a crisis country's currency. "The still early state of the research into the behaviour of interest rates and exchange rates during crises may not allow firm conclusions," the report said. "There is, however, more evidence about the adverse impact of high interest rates on real economic activity, confirming the importance of undertaking monetary policy in a flexible and nuanced way."

The report said that countries should often consider greater exchange rate flexibility if they were facing dramatic inflows of capital. But it added that crises were as likely under floating as fixed exchange rates. Floating rates also bring other problems, including the loss of an anti-inflationary anchor.

Personal View, Page 14

Developing countries face weak growth this year with slow recovery to follow



Source: World Bank; Euromoney

* Measured in constant 1987 prices and exchange rates ** In real 1987 dollars

NEWS DIGEST

IRAQ AND THE UN

Weapons inspectors impose tougher test

A team of United Nations biological weapons experts yesterday began a new test of Iraq's commitment to comply with UN resolutions.

The team from Unscom, the UN special commission, arrived in Baghdad on Tuesday, and is expected to conduct challenge inspections. These are more sensitive than the monitoring work Unscom officials have been engaged in since their return to Iraq two weeks ago.

Baghdad averted a US-led military strike last month by agreeing to resume co-operation with inspectors but the US has demanded that Unscom quickly pursue a tough test of Iraq's pledge of compliance. The test has already led to a row over access to documents.

UN arms inspectors have said they still lack a clear understanding of Iraq's past efforts to develop biological weapons. According to a former inspector, Unscom's team in the coming days will seek to interview scientists and officials suspected of having been involved in the biological weapons programme.

An Unscom official said yesterday that more visiting teams would be sent to Iraq. The test of Iraqi compliance is expected to take another two weeks.

As challenge inspections resume in Baghdad, Richard Butler, chief UN arms inspector, is continuing his pursuit of the 12 documents requested last month from the Iraqi leadership.

Iraq told him it was in a position to share with Unscom only two of the sets of records because the rest either did not exist, had been destroyed, or had already been checked by inspectors.

Iraq also said a key document dealing with chemical weapons could only be seen by inspectors in the presence of Prakash Shah, the UN secretary general's special envoy to Baghdad. Mr Butler, however, wrote back to the Iraqis last week, maintaining that this document should simply be handed over to Unscom.

Roula Khalaf, London

ISRAELI POLITICS

Levy demands finance post

David Levy, head of the Gesher party and a supporter of high public spending, said yesterday he would rejoin Benjamin Netanyahu's coalition but only if he was made finance minister, one of the most important posts in the government.

Mr Levy made the demand after talks with Mr Netanyahu who needs the support of Gesher's four-member party to stabilise the coalition, reduce the need for a national unity government and put off early elections.

But economists warned it would be "bad news" if Mr Levy was appointed finance minister. "International investors have been impressed with Yaakov Neeman as finance minister," said Stephen Levey, head of the Israeli office of Warburg, Dillon Read. "It would be very disappointing if he was replaced."

Mr Levy, a former foreign minister who quit the government last January after criticising Mr Netanyahu's style of leadership and his tight fiscal policies, was last week promised the post of infrastructure minister.

He has since raised the stakes, although it is uncertain whether Mr Netanyahu would completely compromise his economic policies aimed at lowering inflation and reducing the budget deficit by ceding to Mr Levy's demand.

Judy Dempsey, Jerusalem

LEBANON GOVERNMENT

Hoss confirmed as PM

Salim al-Hoss was yesterday named prime minister of Lebanon and said that reducing the country's estimated $2bn budget deficit would be his first priority.

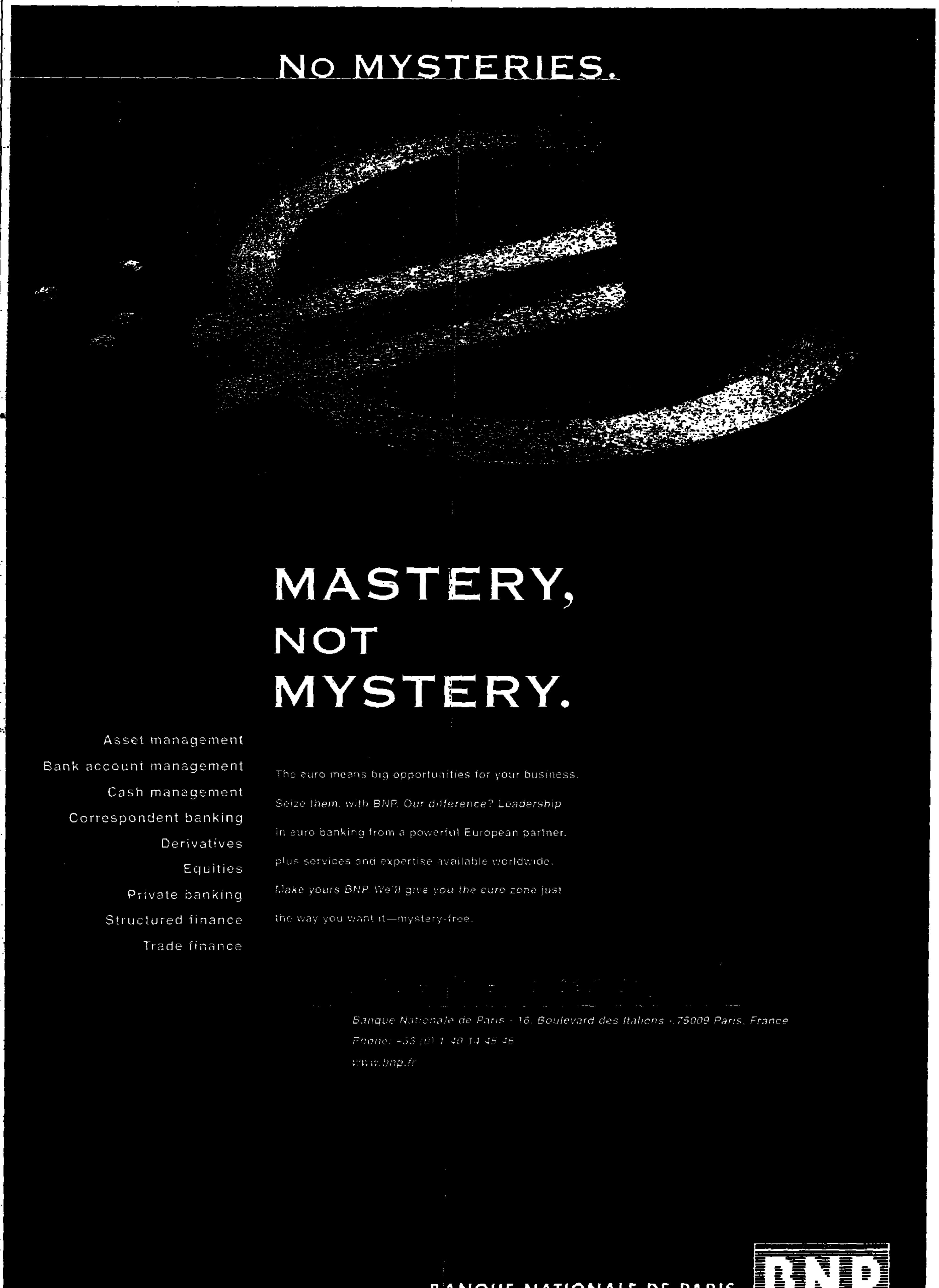
Speaking after his visit to the presidential palace at Baabda, Mr Hoss said: "We believe the deficit constitutes the source of many problems from which the economic sector suffers. Mr Hoss has served as prime minister three times previously, during some of the darkest years of the civil war.

He replaces Rafiq al-Hariri, the entrepreneur and construction billionaire who bowed out unexpectedly on Monday after declining to accept another mandate from President Emile Lahoud.

A quietly spoken politician and academic economist, his personality stands in vivid contrast to that of his predecessor.

Mr Hoss pledged to continue reconstruction projects begun by Mr Hariri but promised to "apply the principle of austerity in the extreme" in his 1999 budget. Analysts said financial markets would welcome the emphasis on tackling the deficit, one of them describing the remark as "exactly what I hoped to hear".

Mr Hoss also emphasised the need to assist those displaced by the civil war to return to their homes, the indivisibility of the Syrian-Lebanese peace tracts and the importance of Israel's unconditional withdrawal from southern Lebanon. **James Schofield, Beirut**



THE EURO ALSTOM CHIEF SAYS POUND MAY BE MARGINALISED

'Banana currency' risk to sterling

By Peter Marsh in London

Sterling risks being marginalised as a "banana currency" if Britain stays out of the euro zone too long, according to Jim Cronin, deputy chief executive of Alstom, the UK-French electrical engineering company.

The comments are among the toughest warnings from a British business executive about the dangers of the UK failing to join the 11 countries in the single currency zone, which begins in just over four weeks.

Mr Cronin was a long-serving executive at GEC, the UK electrical goods company that owns 24 per cent of Alstom, before his current appointment. He said that 60 to 80 per cent of Alstom's sales would be in euros within a few years. Most of the rest would be in dollars.

Alstom – based in Paris and listed on the Paris, London and New York stock exchanges – had sales last year of Ecu14.1bn ($16.3bn), 15 per cent of which were in the UK. The UK government stance on the euro remains favourable in principle, but it has ruled out entry before the next national election, which many expect in 2002-2003.

Mr Cronin believes British companies that do not use euros in their transactions may suffer commercial disadvantages. They would need extra hedging operations and they may not be geared up fully to compete with other companies – not only in Europe but also in Asia, where a range of currencies is used in commercial deals.

Mr Cronin said, that in tendering for projects in Asia, Alstom would base prices increasingly in euros rather than sterling.

A number of other manufacturers – from countries such as Germany and Switzerland – have also said they intend to issue price lists to Asian customers in euros. Alstom is talking to many of its UK suppliers about whether they would accept euros in payment.

But Mr Cronin believes that only a few companies will want to switch to euros when most of their costs are in sterling. "A lot of UK industry will not be geared up to using the euro when it starts," Mr Cronin said.

Recent surveys indicate that many big international businesses in the UK are in favour of the UK joining the single currency as soon as inflation rates and economic growth in Britain have converged with those of the euro zone.

But many smaller businesses remain antagonistic because of fears about reduced independence and the handing away of the UK's abilities to set short-term interest rates to the European central bank.

- The government's campaign to publicise the euro has cost nearly £5m so far, Patricia Hewitt, a senior Treasury minister, told the House of Commons. She said the campaign had been "highly effective".

Business and the euro, Page 25

Raj Mair: 'No job is safe in today's climate' North News

CLOSURE THREAT WORKERS START OWN BUSINESSES

Sale hopes fail to halt Siemens countdown

By Chris Tighe in Newcastle upon Tyne

Decommissioning of the Siemens factory in north-east England is under way after a short delay pending talks between the company and an undisclosed potential Chinese buyer.

The factory, the £650m ($1.07m) first stage of a £1.1bn project, had been in commercial production less than a year when the German company announced in July that it was to close with the loss of 1,100 jobs because of global semiconductor market conditions.

Microchip production ceased last week, and Siemens says it remains "cautiously optimistic" that some deal can be struck. "Talks have been going on with a couple of parties and one party in particular – one party is quite advanced," the company said.

Of the 500-plus workers who have left the plant, about 60 have transferred overseas with Siemens. Others have found work in the north-east or elsewhere in the UK. Some have set up their own businesses. Siemens wants 800 of the remaining employees to stay on until mid 1999 to complete decommissioning.

One of those who left is Raj Mair, now owner and manager of Innovation Ltd, his own information technology services company.

"I wanted to set up a company; this has given me the opportunity to do that," says 33-year-old Mr Mair, a former IT project manager. "We realised that whether you work for a large company or a small company no job is safe in today's climate. That helped us take the plunge."

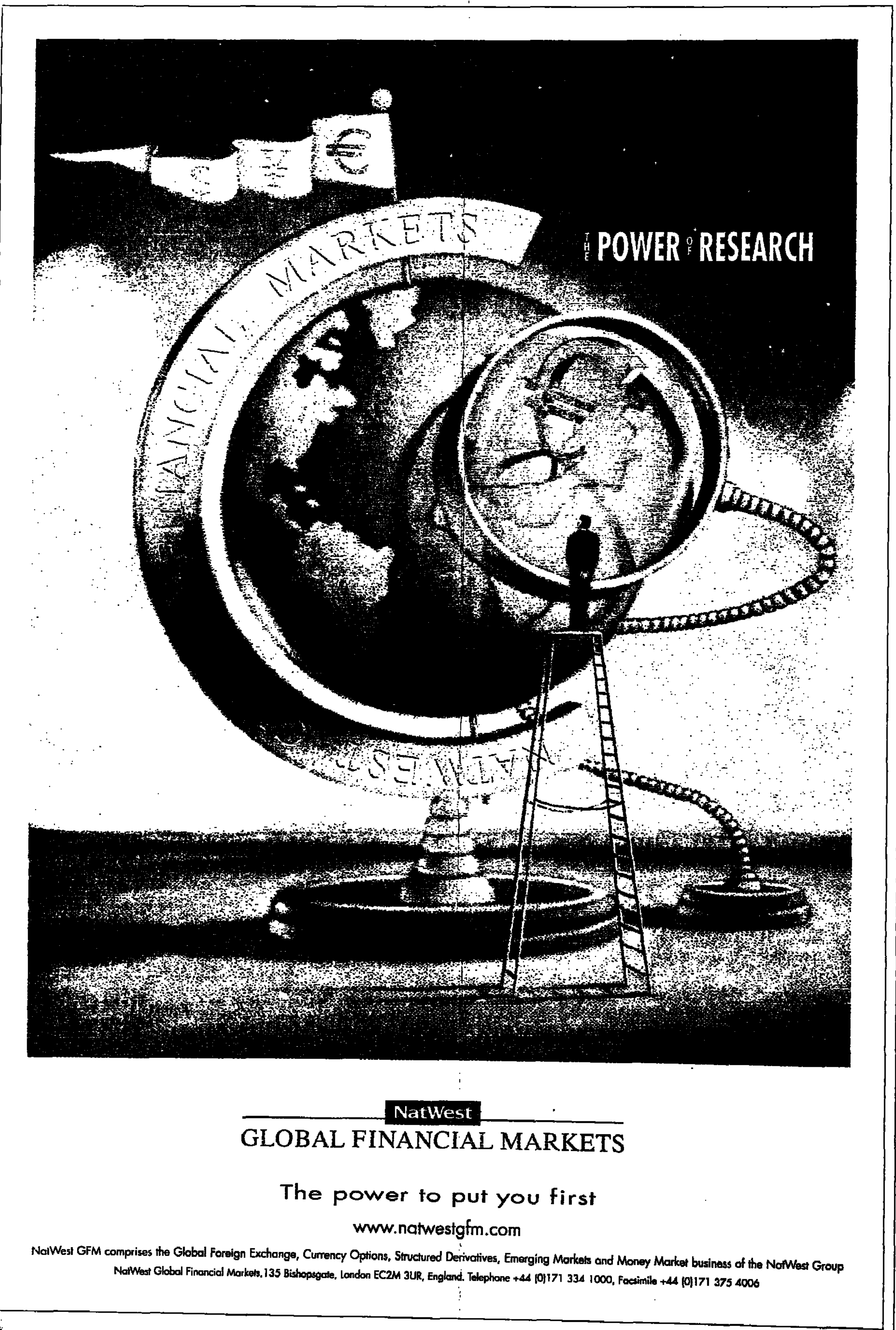
"You haven't just got to feel sorry for the Siemens people," says Eddie Darke, North Tyneside Council's deputy leader. He cites the region's recent run of heavy job losses and big closures. These include not only Fujitsu's semiconductor plant, finally closing tomorrow, but also cranemaker Grove, razor-blade maker Wilkinson Sword and a dozen textile factories.

The loss of Siemens and Fujitsu – seen as prestigious inward investors providing the jobs of the future – was a big blow to morale. But despite all bad news, north-east regeneration leaders are striving to project a positive message.

"We are in a lot better state than five years ago," says Chris Roberts, the North Tyneside council executive director responsible for regeneration. Siemens, he says, has helped build new educational, training and investment momentum and provided a skills spin-off.

Local shipbuilder Swan Hunter underwent two years of receivership and rumour before an eleventh-hour rescue by Dutch investors. Whatever happens to the Siemens factory, withdrawal by inward investors and the hopes pinned on distant saviours highlight the north-east's under-achievement in indigenous company formation and growth.

Inward investment is vital, says Bill Midgley, president of the North-East Chamber of Commerce, but the region has relied too much on it. "We need to see more of our people have an entrepreneurial spirit."



Teaser Blair must decide whether to reveal more flag

By Robert Peston, Political Editor

Tony Blair, in his Hugo Boss suit, is Mr Europe, seducing big business with his tantalising hints of a lust to join the euro. But – to use the image of John Major made famous by Blair's press secretary, Alastair Campbell – there is just a hint of Union flag underpants above the waistline. If a European politician suggests monetary union may require members to cede some control over taxation, the prime minister comes across all starchily Thatcherite with a "no,no,no".

It is just as John Major predicted before the election: Blair is a Europe-loving red in Baroness Thatcher's frilly blouse. And yet – probably to Major's surprise – Blair faces no serious opposition. The soft left traditionalist wing of Labour, led by Robin Cook and John Prescott, admit their awe at his ability to push through what they see as progressive socialist policies with only a glimmer of opposition from a Conservative-biased media.

Or at least that was true until Oskar Lafontaine bundled along. The new German finance minister is a high-living, tub-thumping socialist of the old school. The ideological and personal chasm between him and Blair was obvious when they met for the first time two years ago in Bonn. Blair came to discuss the new European politics, but could hardly get a word in above the din of a jazz band on a booze-cruise down the Rhine organised by the SPD leader.

Presumably it was the din which prevented Blair getting advance notice of Lafontaine's high-tax, high-spend views. These make him a wonderful bogeyman for the British tabloid press, which uses him as a device for attacking Blair's "collaborator" approach to the EU.

Lafontaine's campaign to secure uniform corporate and savings taxes in Europe and desire to prevent any country having a veto over European tax proposals represent the worst kind of dilemma for Blair. For once, he has to choose between his pro-European instincts and kowtowing to British tabloids baying for chauvinist soundbites. To his credit, he has so far opted against cheap anti-German or anti-European jibes.

But Lafontaine has undermined the notion that the dominance of centre-left governments in Europe, following the SPD German victory earlier in the autumn, would help the UK to set the EU agenda. It was a view held by Cook, but Downing Street has always been more cautious about it.

The Blairite EU vision was in fact remarkably similar to that of the former Chancellor Helmut Kohl and the German Christian Democrats – certainly Kohl regarded Blair as a kind of freakishly lithe son and heir.

And it is no coincidence that with Kohl's departure, Blair has had to make common cause with José Maria Aznar, the centre-right Spanish premier, to promote his programme of increasing labour market flexibility – the socialist brothers in France and Germany are less than enamoured of it.

But the proponents of an Anglo-German entente say all is not lost. Peter Mandelson and Bodo Hombach are swanking around like lifelong buddies after their inaugural meeting on forming a Third Way. And the German chancellor, Gerhardt Schröder, is said by British officials to be modelling himself explicitly on Blair. Blair is banking on an inevitable power struggle between Schröder and Lafontaine, with the latter being trounced.

This may turn out to be wishful thinking. Schröder, in an FT interview yesterday, made clear that, for now at least, if he has to choose sides between the British prime minister and the SPD's most powerful member, he will stick with big Oskar. Which means that Blair still has to choose between taking off his Union flag underpants or wearing them outside his trousers.

Opposition chief in upper house sacked

By Robert Peston and George Parker

William Hague last night sacked Lord Cranborne as leader of the opposition Conservatives in the House of Lords for alleged treachery in agreeing terms with Tony Blair, prime minister, on the expulsion of hereditary peers from the second chamber.

In the first serious crisis he has faced since becoming Conservative leader 17 months ago, Mr Hague repudiated an agreement negotiated by Lord Cranborne that would allow 10 per cent of the 750 hereditary peers to keep their voting rights for several years.

But Conservative lords said last night they supported Lord Cranborne and the deal – which would have prevented months of wrangling over the Lords reform bill – by a margin of four to one at a meeting last night.

Lord Onslow, the outspoken Conservative hereditary lord, said: "I thought Lord Cranborne got the total support of the meeting".

Mr Hague may now lose control of his majority in the upper house.

هكذا من الأصل

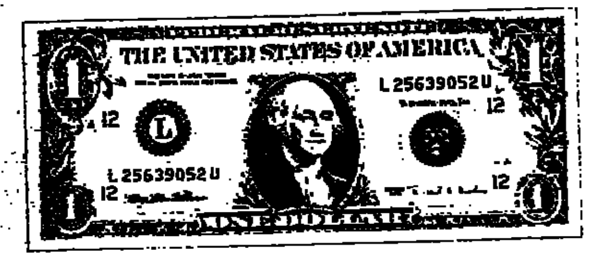
We speak numbers fluently, but do you know in how many languages?

French franc (FRF)

Dexia's outstanding loans in the financing of public service facilities stood at FRF 631 billion on 30 June 1998.

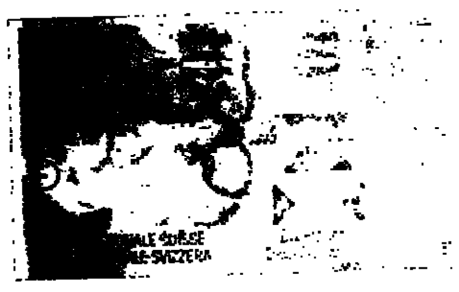
Italian lira (ITL)

Dexia has a 40% stake in Crediop, the leading private bank for public service facilities in Italy. Its share of funding represented 25% of the open market for public sector on 30 June 1998.



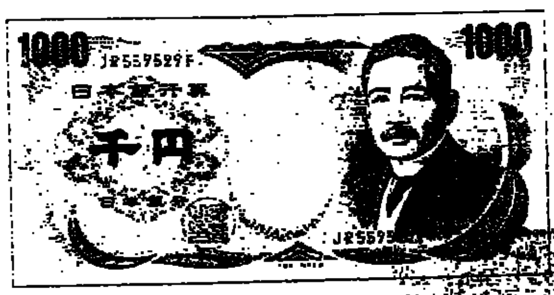
US dollar (USD)

Total outstanding commitments generated by the New York branch in public finance and project finance came to USD 3.914 billion on 30 June 1998.



Swiss franc (CHF)

Experta-BIL, [illegible] Dexia's Swiss [illegible] CHF 4.08 [illegible]



Yen (JPY)

Crédit local de France's total outstanding bond issues (before swap) in yen stood at JPY 409.4 billion.

Australian dollar (AUD)

Dexia manages assets of AUD 205 million in Australia via AUSBIL Partners Ltd.

Pound sterling (GBP)

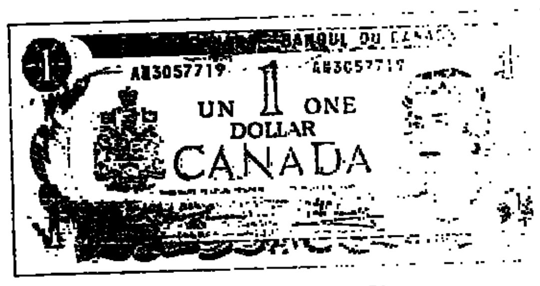
Dexia has two outlets in the United Kingdom. BIL London focuses on asset management. Dexia Municipal Bank (GBP 1.076 billion in [illegible] credits on 30/06/98) is a significant player in the social housing and major project markets.

Dutch florin (NLG)

NV Bank Nederlandse Gemeenten, the Dutch municipal bank, was one of the founding shareholders in Dexia France.

DEXIA

Dexia, the banking partner for local government in Europe, was created by the merger of Crédit local de France and Crédit Communal de Belgique. Already European leader in the financing of public service facilities and with shareholders' equity of 6.2 billion euros, Dexia is currently expanding into bank insurance and asset management.

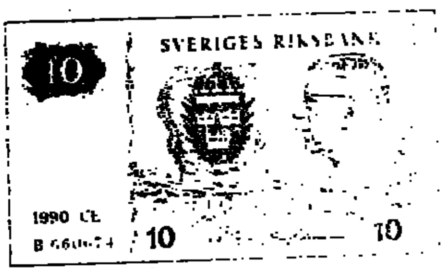


Canadian dollar (CAD)

Dexia is providing financing for Canadian [illegible] and major cities as part of its North American expansion. Outstanding loans stood at CAD 656 million on 30 June 1998.

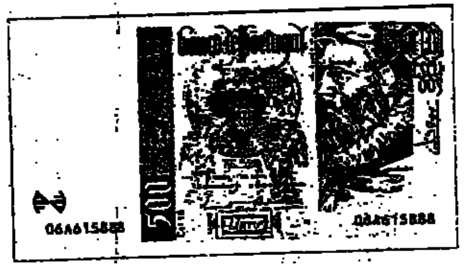
Belgian franc (BEF)

Dexia's total outstanding deposits, all customer categories, came to BEF 2.896 billion on 30 June 1998.



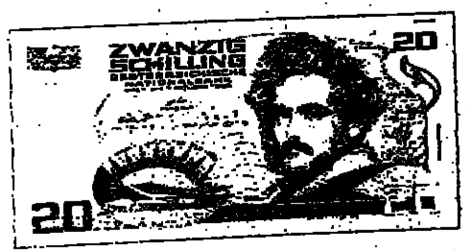
Swedish krona (SEK)

Only eighteen months after starting, Dexia's Swedish subsidiary, Dexia Kommunalbank AB, has total outstanding loans of SEK 5.083 billion on 30 June 1998.



Portuguese escudo (PTE)

Dexia supplied the equivalent of PTE 1.004 billion towards the financing of the Tagus bridge.



Austrian schilling (ATS)

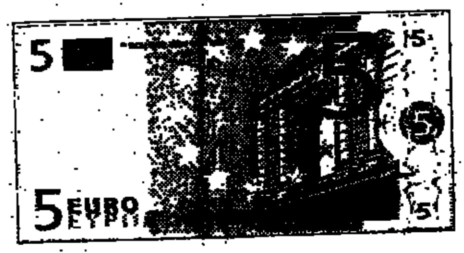
Dexia has a 26% stake in Österreichische Kommunalkredit. The bank of Austrian local government posted ATS 5.33 billion in new operations on 30 June 1998.

Luxembourg franc (LUF)

Dexia managed some LUF 885.3 billion in assets on 30 June 1998. These activities have been reassigned to the group's new specialised subsidiary, Dexia Asset Management (Dexiam).

Greek dracma (GRD)

As part of a partnership agreement signed in April 1997, Dexia has been acting as advisor to the Greek national savings and deposits bank in the areas of [illegible] lending and resources policy.

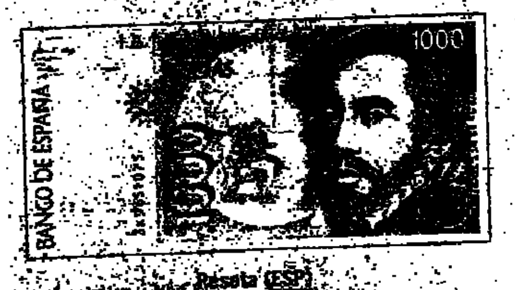


Euro (EUR)

On 15 September 1998, the market capitalisation of the group totalled 9.5 billion euros.

Deutsche Mark (DEM)

Since the beginning of 1998, Dexia Hypothekenbank Berlin AG has issued a volume of DEM 5.5 billion on the Jumbo Pfandbriefe market. These issues have been given an AAA rating.



Peseta (ESP)

As part of the alliance signed in June 1998 with the group Argentaria, Dexia has acquired a 40% stake in Banco de Crédito Local, the leading banker of Spanish local authorities.

CRÉDIT LOCAL DE FRANCE

BANQUE Crédit Communal

http://www.dexia.com

CORPORATE GOVERNANCE MINISTER THREATENS REGULATIONS

Final warning over boardroom pay

By David Wighton
Political correspondent

Peter Mandelson, chief industry minister, yesterday gave a final warning to institutional investors to take action over executive pay or face corporate governance regulations.

He told a meeting of institutions and fund managers that companies should put remuneration policy to an annual shareholder vote and there was a case for making this obligatory.

He also criticised pension funds' record of investment in venture capital and urged institutions to put more into "the development of the businesses of the future".

But Ann Robinson, director-general of the National Association of Pension Funds, told Mr Mandelson that the problem did not lie with institutional investors. "The biggest issue for Britain was not the flow of money but the lack of interesting projects to invest in," she said after the meeting.

UK investment in venture capital was much higher than in continental Europe, she added, questioning figures showing it was much lower than in the US.

A colleague of Mr Mandelson said he did not accept this argument. "He found the reaction on venture capital rather over-defensive," said the colleague. But he added that Mr Mandelson was "pleased with the positive tone" on corporate governance.

Ms Robinson said that the NAPF welcomed Mr Mandelson's call for a separate shareholder vote on remuneration. "It is perfectly normal that those who appoint people should have an interest in what they are paid," she said.

The NAPF backs the idea that the separate vote should be made obligatory through incorporation in stock exchange listing rules.

Ms Robinson said Mr Mandelson was right to focus on the role played by institutions in company performance. "He sees corporate governance as a very important element of competitiveness and he is absolutely right."

But there remains opposition – from the Confederation of British Industry, the employers' lobby, among others – to the introduction of a remuneration vote.

The Association of British Insurers, also at yesterday's meeting, questioned whether shareholders could be given sufficient information to make an "informed" decision on the remuneration committee report. Richard Regan, ABI head of investment, said: "It is one approach but it is more important to ensure that shareholders vote on the adoption of incentive packages."

Margaret Beckett, Mr Mandelson's predecessor, said in March that the government reserved the right to make the vote compulsory but hoped companies would adopt it voluntarily. Very few have. The DTI said Mr Mandelson would watch what happens over the next few months very carefully.

Robin Veitch takes cover against the Scottish rain Ashley Coombes

Mackintosh maker resists stormy currency conditions

A Scottish company turns away orders when other manufacturers are being hammered by the high pound. **Peter Marsh** reports

Few UK exporters are turning away inquiries from Japan because they do not have enough manufacturing capacity.

But that is the case for a company which has shot to prominence making raincoats according to 170-year-old manufacturing principles.

Traditional Weatherwear, in central Scotland, is one of a handful of companies in the world making raincoats using the methods of Charles Macintosh, the Scottish inventor who made the first "mackintoshes" in the 1820s from a process he later patented.

Demand, mainly for exports, has been so strong that the company this year took on 12 apprentices to be schooled in mackintosh manufacturing. This brought the workforce to 74, nearly double the figure four years ago.

Traditional Weatherwear's mackintoshes are made in much the same manner as in the 19th century. Workers stick together pieces of rubber-coated cloth using Macintosh's original recipe for a rubber solution mixed with naphtha, a by-product of oil distillation. The cloth is then hand stitched before the seams are taped over with thin strips of fabric to ensure the garments are waterproof.

A worker can make up to 30 coats a week. But the difference now is that they are turned out in 24 colours – including "rust", pink, green, khaki and tartan.

The company has linked with fashion houses including Gucci of Italy, Hermes of France and Ralph Lauren of the US, which sell some of its products under their own names. They retail for up to £1,500 ($2,475).

"We sell on the basis that if you are wearing one of our garments, you are recognised as a prestige person," says Robin Veitch, managing director, an accountant who took control of the company in 1974 in a management buy-out. He says his big breakthrough was in 1979 when the company won its first orders from Hermes.

About 60 per cent of last year's £2.6m sales carried its own brand. This year Mr Veitch is expecting sales of between £3 and £3.5m, with 85 to 90 per cent exported. Until the new apprentices are fully trained – late next year – he is having to turn away customers. Even so, he is budgeting for sales of £5m next year.

"I am having to tell people to wait until 20," says Mr Veitch, who owns 90 per cent of the company. One day recently he had to advise three sets of potential customers from Japan – which, with France, is the company's biggest single export market – that he had no spare capacity.

Mr Veitch says the high pound, which has pushed down export orders for many companies, has not damaged Traditional Weatherwear's business. Instead worrying about the pound, he takes the view that against the D-Mark, sterling is about where it was six years ago – and much weaker than when he took over in the 70s.

NEWS DIGEST

NORTHERN IRELAND

Leaders close to deal on cross-border institutions

Northern Ireland political leaders last night appeared close to a deal on cross border bodies to link the region and the Republic of Ireland after weeks of talks. Tony Blair, the UK prime minister, joined the talks last night and hopes were raised that a deal on north-south institutions, and the executive that will take over the running of the region, could be struck before party leaders leave for the US tomorrow.

David Trimble, first minister of the new assembly and leader of the Ulster Unionists, the biggest pro-British party in Northern Ireland, said agreement was "tantalisingly close". He echoed optimism from Seamus Mallon, his nationalist deputy first minister.

Gerry Adams, president of Sinn Fèin, the Irish Republican Army's political wing, also hinted at the likelihood of a breakthrough before the end of the week. "There will be progress, but progress on the terms of the Unionist go-slow policy. But yes, I would not be surprised if there was agreement," he said.

● A 24-year-old man was yesterday recovering in hospital after being shot in both knees in a paramilitary-style punishment attack. Police said the man was shot on a housing estate in south Belfast, the Northern Ireland capital. He was the second victim of a paramilitary-style attack in the region this week. A man of 25 was attacked by four masked man outside his home in South Armagh. "The man was given a severe beating with metal objects," said police. **John Murray Brown, Belfast**

BBC TOP JOB

Sony man may be contender

Howard Stringer, president of the US operations of Sony, the Japanese electronics group, has emerged as a possible contender to succeed Sir John Birt as director-general of the BBC when he steps down in 2000. Mr Stringer, considered last year by Channel Four for the post of chief executive before joining Sony, is likely to be considered by the BBC governors. Mr Stringer, who has dual British and US citizenship, is a former president of the CBS network in the US and is known for having lured David Letterman, the late-night chat show host, to join CBS from NBC in 1993. Other outside candidates likely to be considered include Michael Jackson, chief executive of Channel Four, and Greg Dyke, chief executive of Pearson Television, a sister company of the Financial Times. There are also likely to be a number of internal BBC candidates, including Alan Yentob, director of television, and younger managers including Mark Thompson, who has just been made director of regional broadcasting. **John Gapper, London**

LEGISLATION

Race law changes likely

The government is likely to announce plans to update the 20-year-old Race Relations Act after the Stephen Lawrence inquiry reports in February next year, it emerged yesterday. Mr Lawrence, a black student, was stabbed to death by a gang of white men in a suburban London street in 1993. The inquiry is expected to outline a series of changes to policing and wider society to tackle racism. This has led the Home Office to respond. Proposals under consideration include a "naming and shaming" initiative to force public bodies to monitor recruitment and promotion of people from ethnic minority backgrounds. The government, municipal authorities and the state health service would be told to publish the details of staff records each year. The Commission for Racial Equality said: "The Lawrence inquiry has gone much further than any of us expected, uncovering real problems but also in educating public opinion. There is growing pressure on the government to respond." **Simon Buckby, London**

BIOTECHNOLOGY

Sector seeks code of practice

The UK biotechnology sector, mired in bad publicity after several high-profile scandals, is seeking to develop a code of practice to head off the threat of stiffer government regulation. The code is being written in the aftermath of the British Biotech debacle. Shares at the Oxford-based company collapsed this year and senior management left after being accused of misleading investors on the progress of its lead drug candidates. The push for more active self-regulation, being led by the BioIndustry Association, follows this week's resignation of two senior executives at Cortecs after revelations that two of the company's three drug development programmes were seriously behind track.

The BIA is understood to be taking advice from Cameron McKenna, the law firm, PwC and Ernst & Young, the accountancy firms, as well as the London Stock Exchange and several regulatory bodies. **David Pilling, London**

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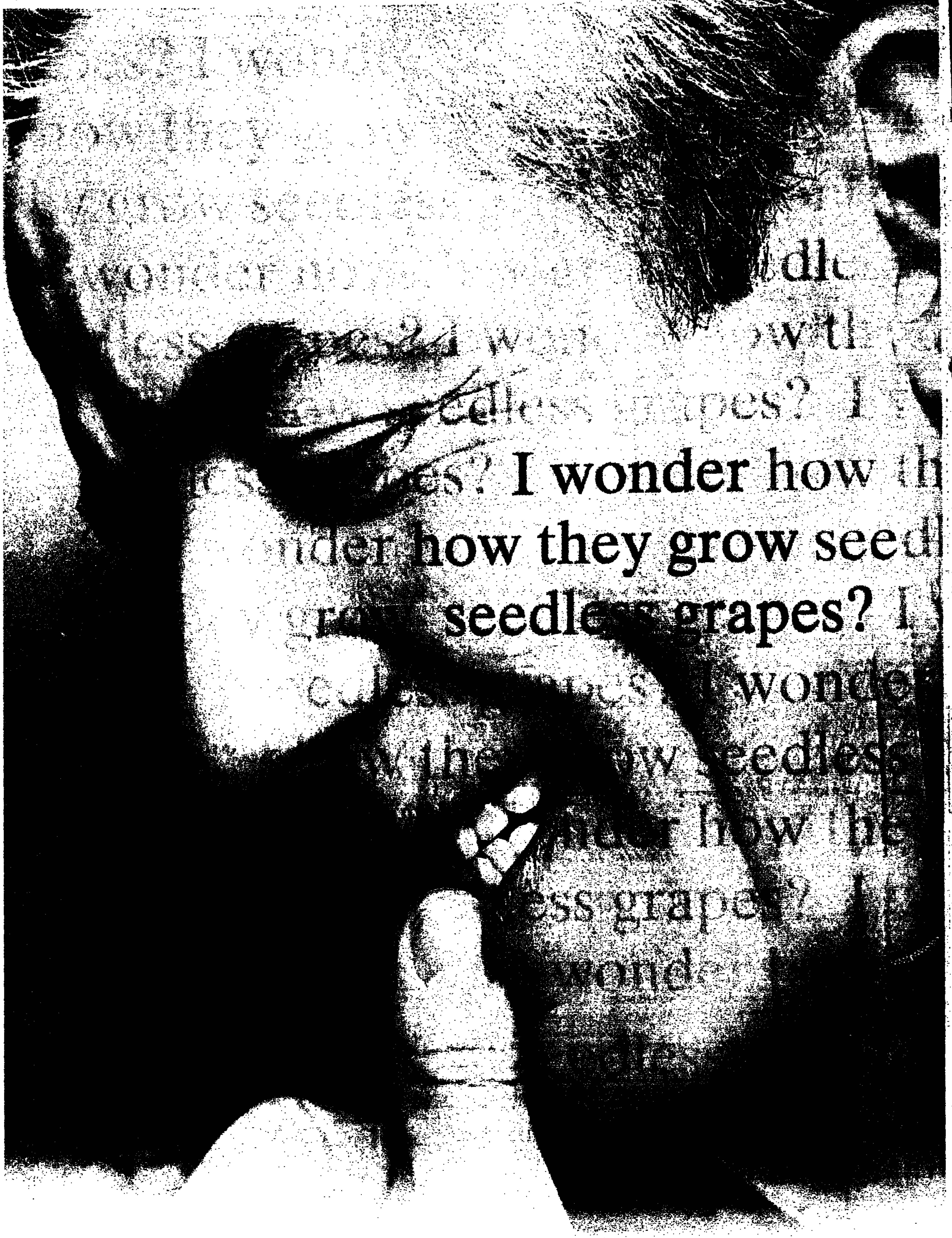

I wonder how
how they grow seed
seedless grapes?

CINEMA

Bristling with a cute craziness

But Nigel Andrews finds the sizzling rashers of promise lose their crackle

Babe: Pig In The City is too much – far too much – of a good thing. The porcine charmer, who parted us from our millions two years ago by winning sheepdog trials and consorting with other beasts computer-graphic'd into loquacity, is waylaid in a big city en route to a "Fayre". Along with Mrs Hoggett the farmer's wife, mistakenly drugs-charged at the airport, and Ferdinand the duck, sounding more than ever like Dustin Hoffman on speed, Babe fetches up in a Gothic tenement out of *Delicatessen* on the edge of a city out of – well, everything really.

Called Metropolis, it is the film's *pièce de resistance*. It features the Eiffel Tower, the Hollywood sign, the Statue of Liberty, the Rio Christ and a bristling array of skyscrapers. *Babe 2* says effectively, "The whole world is a theme park and you, the audience, can be interactive by choosing from our lavish visual-digital *à la carte*. Not just places but animals. Not just animals but fun, song, comedy, action, slapstick and sentiment." For Babe gets involved with singing cats, a chimpanzee family, an orang-utan, a gang of dogs and Mickey Rooney as a clown.

Some of the small children at the press show, not unsurprisingly, looked stupefied. The director George Miller – he only produced *Babe 1* but clearly saw sizzling rashers of promise in the sequel – brings the bric-a-brac decor and elastic camera angles he brought to *Mad Max* and *The Witches Of Eastwick*. The film never stops looking superb. It is never less than technically brilliant. Yet after 40-odd minutes we want to say, "Stop. *Please* give us a rest. How much cute craziness can one audience take?"

The lack of any plot beyond chases is one problem. (The waif-and-stray animals are nearly all being pursued by evil humans.)

BABE: PIG IN THE CITY
George Miller

YEAR OF THE HORSE
Jim Jarmusch

ON CONNAIT LA CHANSON
Alain Resnais

DANCING AT LUGHNASA
Pat O'Connor

RUSH HOUR
Brett Anwar

TWILIGHT
Robert Benton

Another is the paucity of good jokes. These are expended early on, mainly in a rapturously funny – and beautiful – sequence of Ferdinand flapping after Babe's aeroplane before hitching a ride in a pelican's bill. After that we wait for crumbs of charm from the dependable Babe, moments of visual *ensorcelment* from the sets, and the barber-shop harmony of the three mice, who once more win audience roars by chorusing the chapter headings.

*

What better moment to address the role of music in modern movies? Ever since the screen musical died – unrevived by recent bids at necromancy like *Evita* and Woody Allen's *Everybody Says I Love You* – music has had to operate like a poltergeist.

Just when a movie seems quiet and normal, a pop song breaks across it, reminding us that even non-musicals must have tie-in CDs. Alternatively, in this week's *Dancing At Lughnasa*, an epoch is defined by a radio bleating out great bygone hits ("Anything Goes", "That's my baby"). Or there is the avant-garde way of the new Alain Resnais film, in which straight-drama folk break into song like Dennis Potter characters gone Franglais.

And just sometimes – when the poltergeist feels really aggressive – he takes over an entire movie, turning it into a giant sonic squat. *Year Of The Horse* is that dreaded thing (by me at least), a concert film. One-and-three-quarter hours of wall-to-wall yowling involving Neil Young and Crazy Horse, directed by alternative cinema folkhero Jim Jarmusch.

Jarmusch jettisons the good will he earned from *Strangers In Paradise*, *Down By Law* and *Dead Man* by filming everything in Super-8. A motorway on a foggy night will give you an idea of average visibility; a soup-kitchen at lunchtime, average decibel level. At the press show critics were seen to wince, hold their ears or lapse into a defensive slumber.

Those still awake thought the film was better when Young sang semi-unaccompanied, but he likes Crazy Horse and who are we to argue? Offstage, little is better. The group sets fire to a hotel bedroom, out of duty more than enthusiasm. One member waxes educational: "This is how you smoke a joint." And Young carries out his threat to tell us the history of the band, including the fate of two drug-demised members. (Haven't these people seen and learned from *This Is Spinal Tap?*) Taken all in all, *Year Of The Horse* is the filmic equivalent of water torture. Suggestion for re-titling: "This Is Chinese Tap."

On Connait La Chanson may work best, as it did for me at a first festival showing, when watched un-subtitled. Flawed Francophones failing to follow the plot can invent their own reasons why the love-carousel'd Resnais regulars – Sabine Azéma, André Dussollier, Pierre Arditi – keep lip-synching to song snatches.

This is a comedy where everyone loves everyone else and Beaumarchais complexities ensue. Resnais may no longer be the avant-gardist of *Last Year In Marienbad*, and this film no masterpiece, but he still likes to shock. The singing is like a series of surprise speech-balloons, coming from the heart by scenic way of the diaphragm.

In Brian Friel's play *Dancing At Lughnasa* five sisters in 1930s Donegal experienced the growing up of the century. On stage the story had an elliptical grace. Emotions and meanings were felt between the lines. It was as if a play about tender negation – repression of love, postponement of adulthood, denial of historical reality as mad missionary brother Jack comes home trailing the last clouds of Empire as the stormclouds of a new (dis)order gather – distilled the positive by a kind of divine default.

Pat O'Connor's film of the play feels like *The Archers* gone Irish. Everything is folksy, winsome and "opened out". That is, people go for long walks instead of sitting still and letting us hear Friel's dialogue.

The cast is led by Meryl Streep, knitting a faultless accent by the fireside, while Kathy Burke and Sophie Thompson emote and Michael Gambon registers guppy-like naive wonderment as Uncle Jack ("I'd like you all to have a love-child"). There is no sense of a surrounding community or a believable period, beyond the incessant nudgings of the radio whose pre-second world war hits finally send everyone out for a liberating knees-up.

Rush Hour is a relief. Here life is simple, fast and modern, with ex-Hong Kong stunt star Jackie Chan and ex-standup black comic Chris Tucker paired as cops investigating the kidnapping of the Chinese consul's daughter.

Even in a buddy action thriller music can have its role. The two heroes from irreconcilable black/oriental backgrounds define their differences by riffing rival tunes at each other. (You are what you bop to). Elsewhere, in the best action tradition, they smash cars, leap from tall buildings and confront velvet-cadenced English villains (Tom Wilkinson sounding alarmingly like James Mason).

Twilight is Old Hollywood in all senses. From the acting-writing-directing team of *Nobody's Fool* – Paul Newman, Richard Russo, Robert (*Kramer Vs Kramer*) Benton – comes this moodily antediluvian *roman noir* about an ex-private eye (Newman) uncovering murky secrets for, and among, the family he oddly houses with (Gene Hackman, Susan Sarandon, daughter Reese Witherspoon).

You cannot complain of decrepitude since that is virtually the film's subject. Hackman is dying, Newman is grouchy and rival detective James Garner says things to him like "Prostate acting up yet?"

Actually no one acts up. The restraint, whisked into Expressionist aquatints by ex-Kieslowski cameraman Piotr Sobocinski, becomes appealing, giving even the sub-Chandler plot a touch of elegy. As for the music, it sounds like Max Steiner on downers, which is about the best way Max Steiner could sound.

Technically brilliant, but few jokes and even less plot: slapstick an sentiment in 'Babe: Pig In The City'

No magic the other side of the wardrobe

THEATRE

ALASTAIR MACAULAY

The Lion, the Witch and the Wardrobe
Royal Shakespeare Company

C.S.Lewis's classic children's story The Lion, the Witch, and the Wardrobe has – or so it occurs to me after watching the new Royal Shakespeare Company stage adaptation of it and remembering a story I once loved and re-read – its considerable charms, its tiresome shortcomings, and two extraordinary virtues.

The charm is partly that it is a cornucopia of world mythologies. Another factor is Lewis's gentle wit: any child can relish an adventure story that starts in a snowbound realm that is "always winter and never Christmas".

The shortcomings are simply that Lewis's story is *Christian*, *royalist* and, worst, terminally English. The Christianity is patent; the royalism is, I suppose, harmless: our four heroes step through the wardrobe and inherit the royal thrones of Narnia by divine right. But the Englishness! The faun serves sardines on toast; Father Christmas administers tea; Mr and Mrs Beaver know their place, and talk in *charmingly* working-class dialect; and we are told that Giant Rumblebuffin comes from "One of the most respected giant families in Narnia."

Still, the two virtues are heartstopping. And they are intimately connected at the centre of the story. One is that one of the four children betrays his siblings to the White Witch. (Imagine *The Wizard of Oz* if the Tin Man had betrayed Dorothy & Co to the Wicked Witch of the West!) Lewis makes Edmund the most weak, the most complex, and morally by far the most interesting of the children. The other virtue is that Lewis dares to tackle the most bizarre central tenet of Christianity head-on: the Lord of the World, Aslan the Lion, gives himself up, in Edmund's place, as the Witch's victim; is killed by her for Edmund's sins; and then – miracle of all miracles – returns from death to life and saves the world from evil.

Alas, only a few of these features become clear or interesting in Adrian Mitchell's cosy little stage adaptation, as staged by Adrian Noble. The wardrobe is OK. But the witch is a pantomime ham. And the lion is a washout. The Englishness and royalism of the story are all too apparent, but the Christianity is nervously handled and *crummily* narrated. Edmund – very well played in Act One by William Mannering – suddenly fizzles out (thanks to bad dramatisation and direction) into a tepid plot device. Then, when the White Witch plunges her crooked dagger into Aslan's heart, we're meant to feel the end of all hope and all justice in the world; but here it seems merely a peculiar gesture in some black magic act. "What's happened to the lion?" asked an intelligent five-year-old at this point: the child is already a good critic.

Because this is Christmas, Mitchell has shoved songs in. What with his tepid lyrics, Shaun Davey's crummy music, the RSC's incorrigible fondness for bad amplification and Adrian Noble's inability to stage a single production number effectively, this *Lion, Witch, Wardrobe* is the worst musical I have seen in, oh, at least four months. There is not one rhythm that raises the pulse of the show, not one melody to lift the heart.

Anthony Ward has provided picturesque designs, but certain scene-changes are uncharacteristically clunky. Mark Henderson's lighting lets us glimpse what should be unseen and leaves unmagical what should be enchanting. Noble, Ward, and Henderson are all professionals: I don't doubt that they will turn this into a better show than it currently is. But Noble doesn't seem to believe in either Aslan or the Witch: the former is played by the most laborious actor in the cast (with some ghastly amplifications), the latter receives what I hope is the least serious and most superficial performance of Estelle Kohler's career, and the story always sinks whenever either of them is onstage.

The virtues of C.S Lewis's classic story are not brought out by this cosy adaptation

Because this is Christmas and because hordes of children and grown-ups are simply happy to see beloved stories acted out by real people, it will be watched with a great deal of dewy-eyed affection; and the story, fairly well told until Act Two, is spell-binding. Still, my eyes stayed dry; and the child in me got the fidgets.

Sponsored by Wacky Warehouse.

Alastair Muir

Estelle Kohler: the Witch is a pantomime ham and the Lion a washout in the new RSC production

INTERNATIONAL Arts Guide

ADELAIDE

OPERA
State Opera of South Australia
The Ring: second cycle of Wagner's opera. Performed in Australia for the first time since 1913, The Ring is conducted by Jeffrey Tate and includes Janis Martin among the cast; to Dec 4

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
The Queen of Spades: by Tchaikovsky. Conducted by Semyon Bychkov in a new staging by Lev Dodin. An international co-production that will travel to Florence and Rome; Dec 6, 8,

BARCELONA

EXHIBITION
Museu Picasso
Tel: 34-3-319 6310
Picasso - Engravings 1900-1942: temporary exhibition with more than 250 works from the Museé Picasso in Paris. It presents Picasso's engravings as a diary, a daily examination of his *emotions*: it follows the different themes and techniques that inform the artist's work; from Dec 4 to Apr 4

BRUGES

EXHIBITION
Musée Memling
Tel: 32-50-44 8644
From Memling to Pourbus: exhibition illustrating Bruges' importance as an *artistic centre* in the 16th century. Covering the period between Hans Memling (c.1430/40-94) and Pieter Pourbus (1523-84), it contains paintings, *drawings, sculptures,* tapestries and manuscripts; to Dec 6

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Rise and Fall of the City *of* Mahagonny: by Kurt Weill, libretto by Bertolt Brecht. Conducted by Sylvain Cambreling, with a cast including Catherine Malfitano and Kim Begley; *Dec 4, 7*

COLOGNE

OPERA
Oper der Stadt
Tel: 221-221 8400
Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the *Nazis and largely* forgotten until a recent recording. This production is conducted by *Bruno* Weill *and staged by* David Mouchtar-Samorai; Dec 6

FLORENCE

OPERA
Teatro Comunale
Tel: 39-055-211158
www.maggiofiorentino.com
La Bohème: by Puccini. Conducted by Semyon Bychkov in a staging by Jonathan Miller; Dec 3

FRANKFURT

OPERA
Oper Frankfurt
Tel: 49-69-21237 999
www.frankfurt-business.de/oper
Die Zauberflöte: by Mozart. Conducted by Guido Johannes *Rumstadt in a staging* by Alfred *Kirchner*. With a cast including Britta Stallmeister and Kirsten Blanck; Dec 3, 5, 7

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-403 021
Anna Bolena: by *Donizetti*. *Conducted by* Maurizio Barbacini in a new staging by Jussi Tapola, with designs by Anna Kontek; Dec 4, 8

HONG KONG

CONCERTS
Cultural Centre Concert Hall
HK Philharmonic Orchestra: violin *soloist* Dmitry Sitkovetsky *features* in works by Weill, Mozart and Beethoven; Dec 4, 5

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Sir Colin Davis conducts a series of works by Elgar; Dec 6, 9

Royal Festival Hall
Tel: 44-171-960 4242
Messiah: by Handel. Performed *by the Mozart Festival Orchestra* and Chorus in 18th century costume and a candlelit-style setting. Ian Watson is the conductor; Dec 5

Wigmore Hall
Tel: 44-171-935 2141
Fazil Say: Turkish pianist makes his first London recital. *Music* by *Bach, Berg and Mozart features,* as well as some of Say's own compositions; Dec 7

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Boris Godunov: by Mussorgsky. Conducted by Noel Davies in a *new staging by Francesca Zambello, with sets by Hildegard Bechtler*. Gidon Saks sings the title role; Dec 4, 8

THEATRE
National Theatre
Tel: 44-171-928 2252
Betrayal: by Harold Pinter. Trevor Nunn directs Pinter's 1978 play, with a cast including Anthony *Calf and Imogen Stubbs;* Lyttleton Theatre; Dec 4, 5, 7, 8, 9

MANCHESTER

CONCERT
Bridgewater Hall
Tel: 44-161-907 9000
London Symphony Orchestra: conducted by Sir Colin Davies in works by Elgar and Brahms; Dec 3

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Kurt Masur in works by R. Strauss. With soprano Deborah Voight and horn soloist Philip Myers; Dec 3, 4, 5, 8

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
- ● La Traviata: by Verdi. Production by Franco Zeffirelli with a cast including Patricia *Racette and Marcelo Alvarez*. James Levine is the conductor; Dec 4
- ● Le Nozze de Figaro: by Mozart. Production by Jonathan Miller, with a cast including Felicity Lott and Barbara *Bonney*. James Levine conducts; Dec 5

PARIS

CONCERT
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Emmanuel Krivine in works by Brahms, Beethoven and Dvorak; Dec 3

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
The Merry Widow: by Franz Lehár. Conducted by Armin Jordan and with a cast including Frederica von Stade; Dec 4, 8

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
The Magic Flute: by Mozart. Jean-Claude Malgoire conducts and the staging is by Pierre Constant. With La Grande Ecurie et la Chambre du Roy and the *Maîtrise du Centre de Musique* Baroque de Versailles; Dec 5, 7, 9

ROME

CONCERTS
Accademia Nazionale di Santa Cecilia
Tel: 39-6-6880 1044
Orchestra and Choir of the *Accademia Nazionale di Santa Cec*: conducted by Myung-Whun Chung in works by Mozart and Mendelssohn; Dec 6, 7, 8

TOKYO

CONCERT
Orchard Hall, Bunkamura
Tel: 81-3-3477 9999
Silent Cities: the Tokyo Philharmonic Symphony Orchestra performs the world premiere of Mark-Anthony Turnage's composition. *It* ends a *year-long festival* of British contemporary music; Dec 5

WASHINGTON

EXHIBITION
National Gallery of Art
Tel: 1-202-737 4215
www.nga.gov
Edo: Art in Japan 1615-1868. Consisiting of almost 300 works, this exhibition provides a *comprehensive survey of* Japanese art produced during the prosperous and peaceful Edo period; to Feb 15

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for *Europe can be received in* western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV *reports live from* LIFFE as the London market opens.

PERSONAL VIEW JOSEPH STIGLITZ

Lessons of the Asia crisis

The Dow may be over 9,000 and US economic growth strong but most of the world remains mired in an Asian slump

For more than a year, the global economic crisis, which began in Thailand July 1997 and spread rapidly throughout east Asia, and then to Russia and Latin America, has dominated the world economy. Almost every country in the world has been affected to some degree. In just a few short months, some went from robust growth to deep recession.

The social consequences of this sharp downturn are already apparent: children dropping out of school, millions of people either falling back into poverty or coping with already desperate circumstances, and poorer health.

The crisis caught most economic forecasters off-guard. Even today, no one can predict how long the crisis will last or how deep it will be. But in the midst of this great uncertainty, it is important for us to have a sense of where the world economy is going, what has brought us to this juncture, and what we can do to improve our current outlook and to make another such global calamity less likely.

A new World Bank report tries to provide this information. *Global Economic Prospects and the Developing Countries 1998/99* examines the anatomy of the Asia crisis and assesses both the short and long-term outlooks for the world economy in its wake. As the report makes clear, there is not unanimity on many of the key issues surrounding the crisis. But it is another step toward understanding the nature of the crisis, analysing the world's response, and providing some guidance on how we can make crises less frequent in the future.

A snapshot of the world economy today shows a situation dramatically different from just a year ago. Developing countries have been hardest hit. Their per capita growth is expected to slow this year to 0.4 per cent, down from 3.2 per cent last year. In 1998, 36 countries that account for more than 40 per cent of the developing world's gross domestic product and more than a quarter of its population will likely see negative per capita growth. By comparison, in 1997 per capita income fell in only 21 countries that accounted for 10 per cent of the developing world's GDP and 7 per cent of its population.

How did east Asia, the site of miraculous economic growth for three decades, find itself in the eye of such a storm?

There is no single culprit for the problems that have beset the region. The economic situation in each country differed. But *Global Economic Prospects* concludes that the origins of the crisis lay fundamentally in the interaction between two things: the difficulties of domestic financial liberalisation and the problems associated with volatile international capital markets.

Unlike the Latin America debt crises of the 1980s, the east Asian crisis was not characterised by excessive sovereign borrowing or severe macroeconomic imbalances. Although the current crisis has proved to be much harder to remedy, it has taught us that the primary role for fiscal and monetary policy in future financial crises should be to shore up demand, expand the social safety net, recapitalise banks, and restructure corporate debt. Social safety nets in particular must be a central component of the policy response. Excessively contractionary policies, in economies beleaguered by highly indebted firms, lead to high rates of bankruptcy, making the tasks of corporate and financial sector restructuring and the restoration of business confidence more difficult.

The crisis in east Asia revealed how difficult it is for developing countries to manage enormous private flows without adequate experience.

To deal with the risks posed by large capital flows, especially significant when financial systems are weak, the report suggests that reforms must be comprehensive, and include a combination of more flexible macroeconomic policies, tighter financial regulation and, where necessary, restrictions on capital inflows. Financial sector liberalisation, which can greatly increase the risk of a crisis, must be accompanied by stringent regulatory oversight.

While the policy mix will vary according to each country's particular circumstances, social protection needs to be at its centre. Sadly, the poorest countries are unlikely to develop robust safety nets in the immediate future. In Indonesia and Thailand alone, the number of people falling back into poverty in 1998 could reach 25m. For poor people in countries without an adequate safety net, the crisis has had devastating consequences.

Nevertheless, there is some cause for optimism. Although 1999 is likely to be another year of slow growth in developing countries, their situation could improve in 2000 and following years. Policymakers have recently announced a number of welcome steps designed to foster world economic recovery in the medium-term including interest rate cuts in the United States and Europe, a fiscal stimulus and financial revitalisation package in Japan, agreement on a Brazilian fiscal package and a precautionary line-of-credit, and a Japanese-led $30bn assistance package in Asia.

The crisis has also forced international financial institutions to examine how they responded to the crisis, and what lessons they might take on board in managing future crises.

The World Bank, for its part, has re-affirmed its belief that social policy concerns need to be centre-stage. While never a substitute for sound, pro-growth economic policies, social safety nets can help cushion the worst effects of the crisis on the poor and other vulnerable groups. After all, it is people, not governments, that live out the harsh reality of crisis.

Another lesson we have taken to heart is that a standard "one-size-fits-all" response to a financial sector crisis, such as east Asia's, clearly did not work and imposed a heavy cost on many in the region.

We must adopt a more comprehensive approach to crisis management that adopts more flexible exchange rates, tighter fiscal policy, and where necessary, some form of restrictions on short-term private capital flows. In other words, we must be more nimble and open-minded when responding to crises, and less influenced by the standard rescue formulae that worked well back in the 1980s debt crisis or, in more recent years, in Mexico's economic crisis.

While the World Bank and its sister institutions continue to reflect on the lessons of east Asia, wider events over the past year may well herald a new, more realistic and stable environment for developing countries.

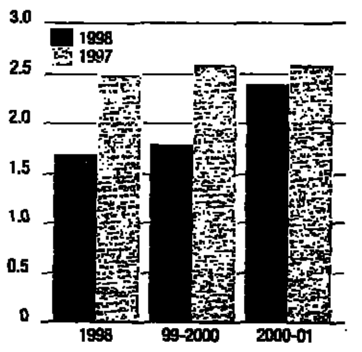
We now have a better understanding of the institutional infrastructure that is required to make market economies work. The international community is giving serious attention to necessary improvements in the international financial architecture. There are many such improvements. The most important include: better bankruptcy laws; greater receptivity to interventions designed to stabilise capital flows; greater willingness to accept debt repayment standstills and arrangements entailing more equitable burden-sharing; and more recognition of the need for responses to crises that are better adapted to the circumstances of the country, and to protecting the most vulnerable within them.

These improvements in domestic institutions and in the international financial architecture will enable greater numbers of countries to enjoy more of the benefits and minimise the all-too-obvious perils of the global economy.

The author is senior vice-president and chief economist of the World Bank in Washington, DC

The rich world slows . . .

G7 GDP growth forecasts (%)



Source: World Bank

the poor fall back

World output growth (annual % change)

	1997	Forecast average 98	99	2000	01-07
All developing countries	4.8	2.0	2.7	4.3	5.2
East Asia crisis countries*	4.5	-8.0	0.1	3.2	5.2
Transition countries of Europe and Central Asia	1.7	-0.4	-0.6	3.0	4.8
Developing countries (excluding transition countries)	5.3	2.5	3.2	4.5	5.2
Developing countries (excluding transition and east Asia 4**)	5.5	3.9	3.6	4.7	5.2

* Indonesia, South Korea, Malaysia, Philippines and Thailand
** East Asia crisis countries (excluding South Korea)

LETTERS TO THE EDITOR

Charge of collective amnesia does little justice to Japanese apologies

From Mr Sadaaki Numata.

Sir, Your articles on President Jiang Zemin's visit to Japan (Naoko Nakamae, James Kynge and Paul Abrahams, 28 November) contained misleading generalisations.

Hiromu Nonaka, chief cabinet secretary, speaking at his press conference on November 27, mentioned President Jiang's remark in the summit meeting. Mr Jiang said: "Although some people claim that history is a finished business, we should not forget that period of history and this should be the basis for Japan-China friendship in the future." Mr Nonaka went on to say that he shared the sentiment as a politician who had lived in such an era. Further, Mr Nonaka was again quoting President Jiang, who used the expression "a small group of Japanese militarists" in his meeting with Prime Minister Keizo Obuchi, in underscoring the point that we Japanese could not erase the fact of having waged war in China, creating many victims on both sides.

In Japan, the process of soul-searching and debate led to the unequivocal expression by the then prime minister, Tomiichi Murayama, on August 15 1995 of "deep remorse and heartfelt apology" over Japan's colonial rule and aggression during a certain period in the past. The same message was conveyed face-to-face by Prime Minister Obuchi to President Jiang.

To dismiss all this as "collective amnesia" on Japan's part seems not only to be biased but also to do little justice to the exchanges between the Japanese and Chinese leaders in which they discussed the past in earnest and set the framework for a partnership of friendship and co-operation for the future, thus marking a new phase in Sino-Japanese relations.

**Sadaaki Numata,
Foreign ministry
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Tokyo, Japan**

Institutions of Emu unsuited to exchange rate system

From Mr Robert Solomon.

Sir, My admirable friend Fred Bergsten has chosen a strange bedfellow in joining Oskar Lafontaine in a plea for a system of target zones for exchange rates. ("How to target exchange rates", November 20).

Prof Bergsten presents all the usual arguments for such a system aimed at preventing misalignments of exchange rates. But when it comes to enforcing the system – keeping exchange rates within the agreed limits – he would rely first on central bank intervention, but to "assure credibility" central banks would have to be prepared to "alter their monetary policies to defend the ranges". That raises two problems. One is that the new European Central Bank is not prepared, if it is authorised, to divert its attention from its "primary objective" of price stability.

The other problem for all central banks, is that the diversion of monetary policies to influencing exchange rates could have undesired effects on national economies. The obvious solution to this problem would be to use fiscal policy to offset those undesired effects. But Prof Bergsten does not mention fiscal policy in his article. Furthermore, fiscal policy is hardly flexible in any major country and is strongly constrained in the euro-zone by the Stability and Growth Pact.

Before we consider adopting target tones, let us make fiscal policy more flexible and usable. That is likely to be desirable to the individual member states of Emu even in the absence of target zones.

**Robert Solomon,
guest scholar,
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Maryland 20817
USA**

UK's equity culture lifts payout figures

From Mr William Claxton-Smith.

Sir, John Flynn (Letters, November 25) criticises UK companies for paying out excessive dividends. What his analysis ignores is that UK companies have a higher level of equity funding compared with their international peers which are more reliant on bond and bank finance and pay out interest rather than dividends.

The success of income-producing equity investments shows the retail investor is still keen on receiving an income on his investments and the fact that this need has historically been met may explain the greater inclination of UK investors to equity.

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The Koran and the sword

Leyla Boulton and **Quentin Peel** wonder whether Turkey's squabbing and ageing politicians will ever be able to form a stable government

For the 56th time in 75 years, Turkey is set to get a new government. Unless politicians get it right this time, there is a danger that the next, or the next but one, might be headed by an Islamist, or by a man in military uniform.

Yesterday's decision by Süleyman Demirel, Turkey's 74-year-old president, to ask his lifelong rival, 73-year-old Bülent Ecevit, to form a new government, is both ironic and revealing. For when the leftwing Mr Ecevit was last prime minister, he earned the bitter enmity of Mr Demirel for enticing members of his rightwing party to support Mr Ecevit's coalition government.

"You may have declared yourselves a government, but you will never be able to govern." Mr Demirel declared, denouncing the 1978 coalition as a "shameful administration". Two years later, as the country descended into faction-fighting and urban violence, the democratic order was overturned in a military coup.

Mr Demirel must be hoping his words do not come back to haunt him now. A stalemate at the heart of Turkish politics has forced the president to turn to his old enemy as the only man capable of holding together a coalition government of political opponents who are as embattled today as their predecessors were in the 1970s.

There is a terrible sense of *déjà vu* in this. Yet the need for a stable administration in Ankara could scarcely be greater. Its international relations are in a state of upheaval, above all with the European Union, its most important neighbour and trading partner. And there is a vacuum in its domestic politics, into which either the growing Islamist movement or the powerful Turkish military could step in.

Turkey's neighbours in the Middle East, and allies in Nato, are looking on with considerable anxiety. The lack of political stability is also causing some soul-searching within Turkey's business community, in spite of a certain resilience in the economy, which is still battling inflation of around 70 per cent a year.

Bülent Ecevit: asked to form Turkey's new government Reuters

On the international front, the failure of the EU last year to accept Turkey as a fully-fledged candidate for membership has alienated the entire political establishment. At the same time, the fact that the EU is negotiating to admit Cyprus, without reconciling the Greek and Turkish parts of the island, is seen as further evidence of betrayal.

Against that background, the country has been swept by a wave of resentful nationalism over the refusal of Italy to extradite Abdullah Ocalan, leader of the Marxist PKK, the Kurdish independence movement which has been fighting a brutal guerrilla war for almost 15 years against the Turkish army.

At home, the main secular political parties are threatened by the rise of an Islamist movement that draws its support from the urban poor and which emerged as the largest single party at the last elections in 1995. The Islamists are regarded with deep suspicion, if not open hostility, by Turkey's powerful military establishment. There is a real possibility that if the Islamists, in the form of Fazilet – the Virtue party – were to emerge as a likely future government, the army would intervene to protect the secular nature of the constitution.

Most analysts in Turkey believe that the single most important source of trouble in the political system lies with the structure of Turkish political parties. The supreme power enjoyed by party leaders, who nominate all candidates for parliament, inhibits internal debate. As one western diplomat puts it: "From the moment [MPs] are elected, they serve only the interests of the party leaders and forget about their voters."

As Messrs Ecevit and Demirel can attest, the system has also ensured remarkable longevity for Turkish political leaders.

"Instead of being agents of change, Turkish political parties are obstacles to change," says Gokhan Çapoglu, who was expelled from the Democratic Left party for challenging the policies of Mr Ecevit.

The other problem is that ever since the military rewrote the constitution after 1980, political parties have had barely distinguishable programmes. "Most party members do not know what the basic principles of their own parties are," says Omer Faruk Gençkaya, a political scientist at Bilkent University in Ankara. "We do not see any colour differences between party programmes."

With two left-of-centre parties that are virtually identical, and two right-of-centre parties that are equally similar, no wonder voters are confused. According to one poll, 42 per cent of voters are undecided about how or if they would vote in the next election, which could come as soon as April.

The main beneficiaries of this indecision have been Turkey's Islamist politicians, whose socially caring, anti-corruption and moralising platform at least offers voters something different.

"Islam is a threat in the sense that they are using religion to promote themselves," says Mr Çapoglu. "Once they start, it is not easy to stop. But if Turkey fails to take action against the causes of the rise of Islam, rather than its consequences, Islam may become a larger threat."

The vital question now is how the military would react to this state of affairs.

In contrast to the political establishment, the army is popularly regarded as the country's single most-respected institution. Last year, the military in effect ousted the first Islamist-led government by applying irresistible pressure on Necmettin Erbakan, the prime minister, to resign. In Turkey, it was called a "soft" coup

Few believe the military would allow Islamists a second chance in government.

The Turkish constitution is clear: it bans "any interference whatsoever of sacred religious feelings in state affairs and politics".

Nevertheless, Mumtaz Soysal, a former foreign minister and now a columnist for the daily Hürriyet, says that in the past, the army has been prepared to allow some deviation from a rigid interpretation of the constitution.

But there are limits. If such deviation were to reach "a level where the foundation of the secularist republic is threatened, for instance if politicians say that people should be free to apply Islamic law, or make a non-secular republic, then the guillotine falls," Mr Soysal says.

The military does not want to intervene again, because it would dash hopesof Turkey being able to join the EU, which insists on the rule of democracy. But an Islamist government would be equally badly received.

As one senior western diplomat in Ankara said: "You can forget about Turkey's application to join the EU if they have any say in future developments."

FINANCIAL TIMES

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Thursday December 3 1998

Wizard growth act in Oz

Australia's third-quarter growth figures confirm in a dazzling way that this is one Pacific Rim country not caught up in economic crisis. While Australia's close trading links with Asia might have been a means of transmitting the contagion, its economy is actually growing at 5 per cent, one of the highest rates in the Organisation for Economic Co-operation and Development.

One of the main reasons is a pragmatic approach to monetary policy. Unlike neighbouring New Zealand, which worked itself into recession for its pains, Australia did not raise interest rates when its currency started to fall.

Instead, it accommodated a trade-weighted deprecation of some 25 per cent in the 18 months to August, and even allowed interest rates to fall quite sharply in the first few months of the crisis. The resulting growth record vindicates its policy of distinguishing between a real external shock and depreciation caused by internally generated difficulties.

The depreciation has limited the impact of falling commodity prices. Australia is also in any case less dependent on commodity exports than it was a decade ago. It is easier to find new outlets for its bulk mineral products than has been the case for New Zealand, which relies on its heavily marketed agricultural products.

Still, it is not all plane sailing. The counterpart of rapid growth has been a widening of the balance of payments deficit to over 5 per cent of gross domestic product. Arguments that this should reduce naturally as the rest of the region begins to recover and Australia's own economy slows may be somewhat sanguine. Australia's domestic savings rate in the mid-teens is higher than that of the UK or US, but the gap with investment is large.

Also, there must be some doubts about whether inflation can hold at its present levels of around 1.5 per cent. The Reserve Bank's decision to cut interest rates by a quarter percentage point even as the growth figures were being announced signals few worries on this score.

Perhaps the economy will slow down quite sharply. If not, the authorities will face a difficult test of deciding how far to tighten the reins while the external environment remains weak.

Yet persistent low inflation also shows the greater competitive pressures introduced into Australia through a long period of economic reform have really begum to bite. Gone, it seems, are the bad old days of the wage-price spiral and closed markets.

Australia was once regarded as one of the more hopeless cases in the industrial world. Its response to the Asian crisis suggest this is an economy whose prospects should now be taken seriously.

Net commerce

When the US government's working group on electronic commerce first met in December 1995, only 10m people were connected to the internet. Three years later – as the group reported on Monday – the figure is 140m.

More significant than that increase in scale, however, has been the transformation of the net into a global highway for electronic transactions.

It is a tribute to US internet policy – and to Ira Magaziner, its guiding spirit – that this has come about without a cumbersome regulatory framework and a new layer of tax.

By emphasising the need to keep the net free of intrusive government regulation, and heading off the threat of "bit taxes" on the flow of internet traffic, the US has done the net a great service. It has also responded with commendable sensitivity to the concerns of other governments, ensuring that though the net has distinctively American roots, its future is a shared responsibility.

Several issues remain undecided, however. One of these is the conflict between the US and the European Union over how to ensure privacy for internet users. There are signs that a resolution to this dispute is possible; and the risk of precipitate action by the EU has receded.

In general, the US approach has been to avoid overly prescriptive government intervention. This is allowing private-sector solutions to emerge to issues such as proving the identity of online customers, or creating standards for new types of electronic money.

This approach has usually paid off. There are a few areas, however, where the US is itself guilty of clumsy action. Despite some relaxation of the rules, it still imposes unnecessary restrictions on the export of some forms of encryption, hampering the development of cross-border electronic commerce. And it takes an excessively heavy-handed approach to protecting the intellectual property of US brand-owners.

Foreign governments tempted to criticise US inconsistencies should beware, however. Though US internet policy is not above reproach, its instinct for flexible, evolving private-sector solutions is greatly preferable to the more *dirigiste* attitudes that still prevail in many other countries.

If the next three years of the internet are as fruitful as the preceding ones, there is much scope for optimism. Two hopes in particular are worth highlighting. As other governments start to create legal frameworks for electronic commerce, they should follow the US light-touch model. And as US policy develops without Mr Magaziner – who is leaving the White House – it is to be hoped that it retains the same international sensitivity.

Starting rate

The next few weeks will see a flurry of speculation over what the starting interest rate for European economic and monetary union will be. There is still a chance that the launch of Emu could coincide with a valuable rate cut – if the European Central Bank is bold enough.

The euro-zone central banks came under heavy criticism for their inaction during the recent period of global financial turmoil, although the process of interest rate convergence meant that there was some monetary easing in the euro-zone as a whole.

Now that the immediate crisis has passed, there is not so much pressure for lower rates. But at the same time, the domestic economic case for a rate cut has been building, as the effects of the global slowdown hit home.

On Tuesday, even the previously optimistic Wim Duisenberg, president of the ECB, downgraded the official 1999 euro-zone output growth forecast from 3 per cent to 2.5 per cent, and warned that the actual outcome could be lower still. Business confidence across the euro-zone has declined significantly; industrial production growth is slipping; and recent GDP figures for France and the Netherlands failed to meet expectations. And, for all the talk of abandoning the Stability and Growth Pact, fiscal policy remains relatively tight.

Meanwhile, the deflationary world environment has helped to push price pressures lower than they have been for many years. Euro-zone inflation is now 1 per cent, and shows little sign of picking up. Wage claims are manageable, and should remain so, with only marginal falls in unemployment rates. And the ECB's choice of a generous reference rate for broad money growth of 4.5 per cent leaves it a fair margin for manoeuvre.

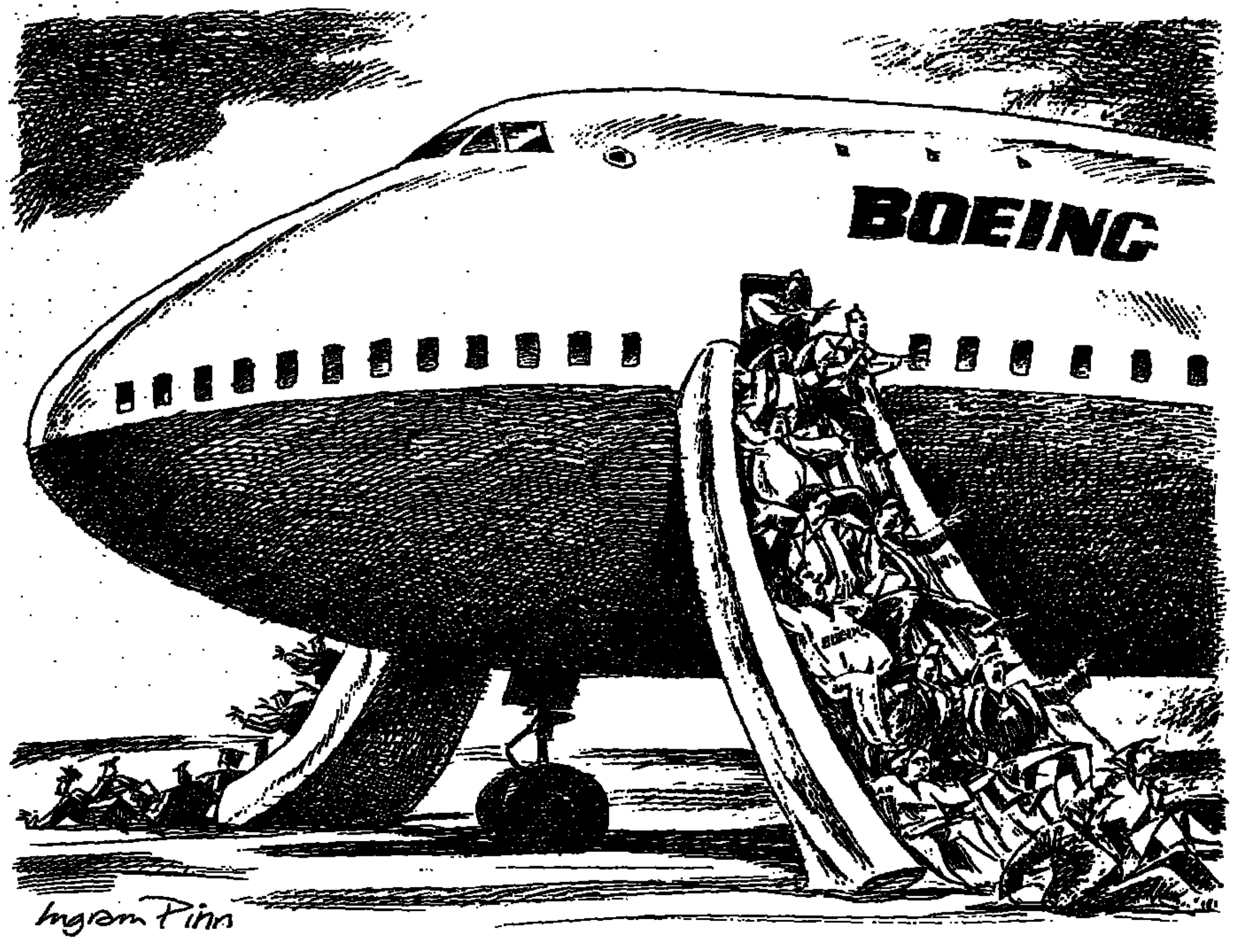
The effect of interest rates on the euro exchange rate should also not be ignored. With the Fed now perceived to be a rate-cutter, there is a risk that a stubborn ECB could send the euro soaring. This would have heavy costs, both for European growth, and for the ability of Europe to help absorb the trade shocks in the world economy.

Finally, if there is to be a rate cut at all – as almost all commentators now expect – there is a purely practical reason why it would be better to have it at the outset. It is crucial that the first few months of Emu go smoothly. Uncertainty over whether a rate cut is imminent would be an unnecessary complication.

The inflationary risks of an interest rate cut of, say, 30 basis points are negligible. The economic benefits could be very real. The ECB, in its final pre-Emu meeting on December 22, is due to set the interest rate that will be in place at the beginning of next year. The opportunity to ease should not be missed.

Please wait in departure lounge

Michael Skapinker looks at a terrible 18 months for Boeing and argues that there may be worse to come



If you peer through the chain-mail fences around desert airports in Arizona and California these days, you will see something not witnessed since the aftermath of the Gulf war and the last recession: surplus Boeings arriving for storage.

The aircraft are largely older models being discarded by Asian airlines, whose profits have tumbled in the wake of the region's financial crisis. Boeing, the world's largest aircraft maker, has been worried about the Asian crisis for months, but was confident it could sell any unwanted aircraft elsewhere.

Late on Tuesday, however, Boeing admitted that the Asian crisis went beyond anything its executives had feared – and the effects on the group would be severe. "The situation in Asia has worsened dramatically," Philip Condit, Boeing's chairman, said yesterday. "It's much deeper and more prolonged than we first estimated."

The result is that Boeing now forecasts that its profits next year will be 25 per cent lower than expected. About 20 per cent of the Boeing workforce – nearly 50,000 people – will lose their jobs. Output of Boeing aircraft models, particularly its flagship four-engined 747, will be cut back sharply. And Boeing will make no money whatever this year on the 550 commercial aircraft it plans to deliver to airlines. "It's not a pretty picture," Harry Stonecipher, Boeing's president, admitted.

The announcement capped a miserable 18 months for Boeing. Late last year, it had to suspend production of 747 and 737 jets for a month when its old-fashioned Seattle factories seized up with the strain of trying to produce too many aircraft. The group, renowned for treating its executives gently, has this year sacked several of them, including Ron Woodard, head of its commercial aircraft division. Yesterday, analysts were again asking how long Mr Condit could survive.

Just how much trouble is Boeing in? For the next few years, quite a lot. Net earnings for this year are expected to be slightly above $1bn, as previously forecast. But net earnings next year are now expected to be between $1.5bn and $1.8bn, compared with forecasts of $2bn.

Operating margins on commercial aircraft, which accounted for 59 per cent of Boeing's turnover last year, are expected to rise from zero this year to only 2 per cent to 3 per cent in 1999. They are then expected to fall back slightly in 2000, because Boeing will be delivering more of its newer model aircraft, which have lower initial profit margins.

How did the world's leading aircraft maker, and one of the world's most admired companies, reach this state? One possibility is that Boeing blundered by buying McDonnell Douglas, also of the US, last year, distracting managers from their central task of making commercial aircraft.

While the purchase of McDonnell Douglas, and the long battle to win approval for the deal from a hostile European Commission, did indeed consume much of Boeing's time, in fact the acquisition has stood the group in good stead. McDonnell Douglas, the world's largest maker of military jets, came with a substantial defence business, increasing Boeing's defence and space revenues from $5.8bn in 1996 to $18.1bn last year. This was handy at a time of trouble in the civilian aircraft business.

While profits from commercial aircraft have plunged, the military business has remained resilient, with operating margins of 7 per cent to 8 per cent this year expected to increase to 9 per cent next year and up to 10 per cent by 2000. While the last downturn in the commercial aircraft business, in the early 1990s, coincided with the sharp fall in defence spending that followed the ending of the cold war, military business is likely to be more dependable this time round.

So if it was not the McDonnell Douglas takeover that caused Boeing's problems, what was it? One of the most important reasons for Boeing's difficulties was its antiquated production methods. Unlike the US motor industry, Boeing has not faced pressure to modernise from lean, well-organised Japanese companies. Boeing's only real competition came from Airbus Industrie, the European consortium. Because Airbus seemed a less formidable competitor, the US company failed to take it sufficiently seriously for many years.

Airbus's manufacturing has long been more capital intensive than Boeing's. While workers swarm around the aircraft at Boeing's Seattle plants, the Airbus final assembly lines in Toulouse appear to be almost unstaffed. The Airbus partners – Aerospatiale of France, Daimler-Chrysler Aerospace of Germany, British Aerospace and Casa of Spain – make aircraft components in their own factories. They then fly the parts to Toulouse, where a small number of employees fit them together using automated machine tools.

For years, Boeing dismissed the idea that Airbus's production techniques were superior. When asked last year whether British Aerospace's much-admired Airbus wings factory in Chester could be a model for Boeing, Mr Woodard said: "The Brits? Come off it." Many Boeing executives persuaded themselves that Airbus's growing market share was the result of the subsidies it received from European governments rather than superior production or aircraft.

Nevertheless, in Seattle Boeing slowly began to modernise its manufacturing, computerising its design and inventory management. In early 1997, halfway through its $1bn factory update, airlines began increasing their orders. Desperate not to lose customers to Airbus, Boeing cut prices and took in more orders than its factories could handle. The cost of the disruption helped to push Boeing last year to a net loss of $178m – its first for 50 years – and led to Mr Woodard's dismissal in September.

Boeing cut prices and took in more orders than its factories could handle

Boeing has made up some of the lost ground. Alan Mulally, Mr Woodard's successor as head of the commercial aircraft division, expects Boeing to meet its target of delivering 550 aircraft to airlines this year and 620 next year.

But just when Boeing might have expected to reap some benefits from its manufacturing improvements, it will have to cut its output in 2000 to 490 aircraft as the drop in Asian orders begins to bite. There have been few outright cancellations. Mr Condit said yesterday that only Philippines Airlines, whose future is in doubt, has cancelled orders. Analysts say other Asian carriers have either deferred orders or failed to convert options into commitments.

Most damagingly, Boeing says it will have to cut output of 747 aircraft from 3.5 a month to 2 a month by the end of next year. If market conditions fail to improve by 2000, Boeing will reduce 747 production to one a month. This is hitting Boeing where it hurts most: Airbus does not make an aircraft as big as the 400-seat 747 and Boeing has traditionally enjoyed healthy margins on this particular model.

Production of other Boeing models will also be cut, but not as sharply. Boeing will continue to turn out more than 20 narrow-bodied 737 aircraft a month. But the 737 has to compete against Airbus's successful A320 family and price competition will continue to be stiff.

Analysts say that while Boeing bears the blame for its production and cost difficulties, the production cutbacks would have happened anyway. "It's the cycle, stupid," says Nick Cunningham, a London-based analyst with Salomon Smith Barney. "You can't escape from it."

Aerospace executives and analysts have long warned that the aircraft market was likely to deteriorate some time early next century. Aircraft sales track the world economic cycle closely. Managers comforted themselves with the thought that the downturn this time was likely to be less severe than in the early 1990s because airlines had not over-ordered and because, come what may, carriers would need to replace older aircraft to comply with new noise restrictions.

Asia's financial crisis meant, however, that downturn started earlier than the industry expected. Nor can it now be confined to Asia. As US and European airlines have seen their Asian passenger numbers fall, they have moved aircraft on to North Atlantic routes, increasing price competition. "The problem with aeroplanes is that they fly from one place to another," says Mr Cunningham. "Capacity knocked out of Asia ultimately starts to displace business elsewhere."

There are already signs of the crisis moving outside Asia. British Airways, one of Boeing's biggest wide-bodied aircraft customers, has replaced orders for five Boeing 747s with smaller 777s.

Analysts believe the downturn will eventually affect Airbus too. But the European consortium has fewer Asian customers and is therefore less exposed to the crisis there than Boeing. It is also a confederation rather than a limited company and does not publish accounts – although it plans to become a profit-making entity by the end of next year. Any price-cutting, and consequent damage to profit margins, is therefore more difficult to detect.

One consequence for Airbus is that its plans to launch a 550-seater "super jumbo", provisionally called the A3XX, look even more unlikely as airlines opt for smaller aircraft.

How long will Boeing take to overcome its crisis? Mr Stonecipher said yesterday that he expected the Asian crisis to last for another two to five years. "We hope it's three," he added.

Mr Condit conceded that the outlook could be even worse than Boeing now expects. By this time next year, even the production figure of one 747 a month could look optimistic. "If the [Asian] economic situation spreads to Europe and the US," he said, "there's clearly room on the downside."

The desert plane-spotters are likely to be kept busy.

OBSERVER

Flagging interest

Next year's chairmanship of the Organisation for Security and Co-operation in Europe is Norway's biggest diplomatic venture yet. The country, which has a creditable record in peacemaking, will play a key role in the OSCE's peacekeeping mission to Kosovo.

But as prime minister Kjell Magne Bondevik prepared to give the opening address to yesterday's OSCE ministerial meeting in Oslo, it appeared that the events' organisers hadn't successfully negotiated the shifting sands of the former Yugoslavia. An official rushed to change the display of flags around the conference hall before any touchy Balkan delegate spotted an emblem that had passed its sell-by date.

Bondevik's opening address went down well, but it took time to reach a wider audience via the internet: students disrupted his office's communications in a protest over 1999 budget cuts. It could be a lively year.

Cathay come home

There was gloom around the Philippines yesterday after the collapse of talks about Cathay Pacific taking a stake in ailing Philippine Airlines. If, as seems to have been a sticking point, Manila won't cede management control, it'll be tough to bring anyone flying to the rescue.

But the atmosphere was brighter in Cathay Pacific's Manila office where staff read with interest the Hong Kong carrier's in-house newsletter CX World. Amid much talk of turbulence in Asian aviation, there was joy over a handful of countries where results didn't fall below budget.

One such was the Philippines "helped no doubt by the problems of Philippine Airlines". Or, as Cathay might say of the scuppered deal, heads you win, tails you win.

Grape expectations

California's Fetzer Vineyards looks an attractive place. "Tour the Wine Country. Without the Tourists," says its new advertising campaign, inviting punters down a quiet, sun-dappled, tree-lined lane for a taste of Chardonnay. The only trouble is that that particular lane is in France.

The Valley Oaks winery has come up in the world since 1958, when lumber merchant Barney Fetzer bought the abandoned, overgrown estate and turned it into one of the US's top wine names. But the approach road is lined with white-painted elms, which Fetzer's ad agency thought didn't have enough bucolic charm.

Brown-Forman, Fetzer's Kentucky-based parent, is unrepentant. The photograph, it says, is "representative of the tree-lined lane leading to Valley Oaks". And advertising is "about representing an experience a consumer may enjoy". Not necessarily showing it.

Forever Felix

Russia's Communist-dominated lower house of parliament has a great sense of timing. As International Monetary Fund boss Michel Camdessus ended crisis talks with the nation's leaders, the Duma was working out how to spend some of the money it hopes will be available.

The communists are still smarting about the 1991 removal of the statue of Felix Dzerzhinsky from outside the Lubyanka, the KGB headquarters. Yesterday the Duma voted to spend some of the IMF dosh on putting the bloodthirsty founder of the Cheka secret police back in his "rightful" place.

Clear-out

As if Total's takeover of Belgium's PetroFina on Tuesday was not enough, Deutsche Bank dropped in on Brussels yesterday and snapped up Crédit Lyonnais Belgium. CLB was a local subsidiary of the French bank, but the deal reinforced the sense that Belgium is being rapidly denuded of its corporate assets.

PetroFina will be the sixth member of the Bel-20 index of leading Belgian stocks to disappear from the Brussels bourse by takeover in little over a year, following venerable holding company Société Générale de Belgique, steelmaker Cockerill Sambre, insurer Royale Belge, and banks Générale de Banque and banks Banque Bruxelles Lambert. Five of the six went to foreign buyers: Fortis, which took over Générale de Banque, is half-Dutch.

With the euro fast approaching, one market market-watcher suggested a new banner for the bourse: "End-of-currency sale: everything must go".

Safe house

Organisers of the Washington conference into Holocaust-era assets have expressed dismay about the security farce on the event's fringes.

On Tuesday, after the session ended, the world's press were writing the story of a dramatic day. They had to stop when armed guards drove them and embarrassed State Department officials on to the street.

Yesterday, security got tighter as the guards decreed that journalists must not talk to delegates. To ram home the message, the press was denied access to the conference coffee pot. The media battled bravely on without caffeine until security hit on the ultimate deterrent – and stopped the scribes getting to the toilets.

The Financial Times

100 years ago

Fighting Chickens Of Cuba
Railways in Cuba are evidently more liberal in their ideas as to passenger luggage than in Britain. The stern officials of our companies frequently decline to allow ladies to be accompanied by their little lap dogs, even when tickets are purchased for the animals. It was popularly supposed that railways in Spanish possessions copied in their regulations the iron-handed policies of the Government. Nothing could be further from the truth. According to the "Chicago Record," the hand luggage of a gentleman may consist of "one hat-box, one satchel and one fighting chicken."

50 years ago

Oil Search Is Dropped
Perth, Dec. 2. Richfield Oil Corporation of California has dropped its plans to spend £1,000,000 on searching for oil in the north-west of Western Australia. The company has announced that in consequence of its new find in California and because of the international situation it has decided to withdraw from any interest in oil in West Australia or Papua.

FINANCIAL TIMES

THURSDAY DECEMBER 3 1998

THE LEX COLUMN

Boeing winged

Boeing . . . going . . . gone? Rarely has a company so misread conditions in its own industry. Granted, Boeing is not the only one to have underestimated the severity of the Asian crisis – on which it is blaming its latest profits warning. But the aircraft maker must take responsibility both for ramping up production too aggressively from 1996, when it was battling for market share with Airbus; and for not reacting quickly enough once east Asian airlines started delaying orders last autumn.

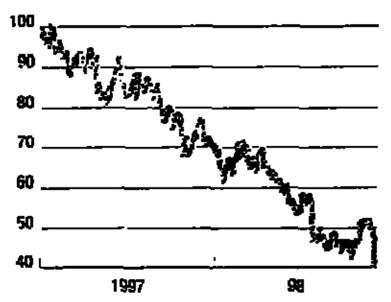
The result is profitless prosperity. Boeing's commercial aircraft deliveries and revenues will actually rise this year and next. But it will basically make no money on them, with margins of 0-3 per cent forecast until 2000. This is for two reasons. First, the group is locked into the rock bottom prices at which it aggressively sold aircraft in 1996/97. More depressingly, despite all the cost cutting, it currently takes Boeing 20-30 per cent more man hours to assemble an aircraft than it did in 1992.

There is worse to come. The real impact of production cuts does not even hit until 2000 and Asian demand may take three more years to recover. With Airbus taking market share, Boeing is bearing the entire brunt of the industry's cyclical downturn. Thankfully, its defence side, a third of revenues, remains solid. But given the scale of mismanagement, it is time for Phil Condit, chairman, to take responsibility and go.

Oil synergies

Why do investors' reactions to big oil's big mergers seem so contrary? Exxon's promise of a $2.8bn boost to operating income within two years from Mobil should trump the $2bn British Petroleum sees by 2001 from Amoco. But that has not been rewarded in the market. BP and Amoco's combined market value has risen by some $18bn, over 50 per cent more than the synergies are worth in today's money. In contrast, Exxon and Mobil's combined value has increased by only around $5bn, a fraction of the $18bn present value of their savings. And Total/PetroFina's promise of a measly $350m saving has been given the thumbs down altogether, with over $3bn knocked off their combined market value.

Boeing
Share price relative to the S&P Composite



Source: Datastream/ICV

The anomaly is explained easily enough. BP's Sir John Browne is a master-masseur of investor expectations: the real savings available are at least $3bn, which leaves plenty of margin for pleasant surprises along the way. And BP benefited from being the first mover in an industry reluctant to consolidate. It could present its deal as the best strategic fit, and one that catapulted it into big oil's super-league. Exxon/Mobil, by contrast, has suffered from me-too-ism. Already in the super-league, its savings with Mobil are from prosaic cost-cutting, rather than radical strategic repositioning. At least, however, the bulk of the savings could not have been achieved by each company alone.

The same cannot be said of Total/PetroFina, which appears largely motivated by the desire to get bigger than French rival Elf, whatever the consequences for its highly rated paper. Not only has Total failed to explain where its savings lie but it is unclear whether it can realise them at all. National sensitivities about the fate of former state oil companies in Europe may be softening, but political obstacles to serious restructuring are not falling at the same pace. Instead of putting on muscles in Brussels, Total is thickening out with expensive flab.

Air France

The engines are revving up for the Air France roadshows. Yesterday's scanty figures were designed to bang home the message of a strong upturn in profits. Adding back the FFr1.3bn of losses blamed on the pilots' strike, first-half net profits appear to have jumped 50 per cent to FFr2.6bn. This was helped by one-off gains, but the underlying improvement still seems close to 20 per cent. The FFr3bn cost-cutting programme is already yielding fruit.

So is the airline set fair for partial privatisation by next March? Internally, much progress has been made. The settlement with Air France pilots will take a few years to erode their pay, but at least the strike was beaten. Among other concessions gained is one that will allow lower cost franchisees to operate some routes. But with its peers also taking the knife to costs, Air France is having to run to stand still.

As for the airline market, that is looking unkind. Each downward revision of economic growth forecasts spells more trouble, first for prices, ultimately for passenger numbers. Hence the substantial discounts that several airline stocks trade on. Add in a political discount for Air France – only 20 per cent is being offered to outside investors – and the initial valuation should not be ambitious. With British Airways and Lufthansa only valued at $7bn-$8bn, this sale has more symbolic than financial importance for the French privatisation programme.

BMW/Rover

Is this Rover's nadir? The resignation of Walter Hasselkus as the BMW subsidiary's chairman is an attempt to signal an end to Rover's market share declines and heavy losses. The trouble is that, notwithstanding the new labour agreement that saves £150m a year from 2000, the good times are some way off yet for the embattled car company. True, the target of profitability by 2000 still stands. This would certainly have been an easy time to abandon it, using Mr Hasselkus as the excuse.

But the time-lag before Rover's new products replace its tired and over-priced saloons remains uncomfortably long. Before the new Mini and other models arrive in 2001 and thereafter, it is hard to see Rover's profitability improving significantly. If the first of the new products to be jointly developed with BMW, the R75 executive car, fails to sell next year, the German company should question whether the rest will be worth the bother.

HIGHER-THAN-EXPECTED INCREASE PROMPTS RISE IN SHARES AND CURRENCY RALLY

Australian economy defies Asian turmoil to grow 5%

By Stephen Wyatt in Sydney

Australia's economy grew 5 per cent in the year to September, defying the Asian crisis to make it one of the fastest-growing economies in the industrialised world.

Yesterday's growth figure, which was significantly higher than the markets had expected, was released in the wake of a quarter-point cut in official interest rates.

The announcements coincided with the introduction of the government's tax reform programme, and spurred equities 1 per cent higher, drove 10-year bond yields below 5 per cent and prompted a rally in the Australian dollar.

"This is one of those days when it's all come together for Australians," said Peter Costello, the government's treasurer.

Gross domestic product growth for the quarter to September increased by 1 per cent in seasonally adjusted terms compared with the previous quarter.

While this was in line with expectations, upward revisions to growth in the preceding three quarters resulted in surprisingly strong growth of 5 per cent over the year. This compares with a revised 4.3 per cent annual GDP growth rate in the second quarter.

Mr Costello said the economy might not maintain this pace. "Clearly, 1999 is going to be a hard year, but I think that we can say the Australian economy has weathered the first year of the [Asian economic] crisis exceptionally well."

The quarter-point cut in the Reserve Bank of Australia's overnight cash rate target, to 4.75 per cent, also "shows the bank is concerned about the outlook for the Australian economy next year", according to Grant Fitzner, an HSBC Sydney-based economist.

Ian MacFarlane, the bank's governor, said the board decided to reduce rates to what is the lowest level since the last easing cycle in 1993 after taking account of the outlook for both economic growth and inflation. Some decline in growth is unavoidable, given the international circumstances, he said.

Australian inflation remains benign. The new GDP chain-price index, published for the first time with yesterday's growth figures in place of the traditional deflator, showed inflation running at a year-on-year rate of 0.8 per cent in the third quarter.

Also yesterday, Mr Costello introduced the government's promised tax reforms through a package of 16 bills in parliament that would abolish existing wholesale sales taxes and introduce a 10 per cent sales tax to take effect from July 1 2000.

"We've got the lowest interest rates in 30 years and we have just introduced a tax reform package that is going to build an even stronger Australian economy," said John Howard, the prime minister.

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France accused of delays over Nazi art theft compensation

By Richard Wolffe and John Authers in Washington

A bitter dispute erupted at the international conference on Holocaust assets yesterday as Jewish groups accused France of dragging its heels on compensation for artistic masterpieces stolen from the victims of the Nazis.

The World Jewish Congress named two masterpieces in Paris – Picasso's "Head of a Woman", currently hanging in the Pompidou Centre, and Cezanne's "Bathers", in the Musee D'Orsay – as looted from Jewish collections.

The Congress – which spearheaded the successful campaign against Swiss banks this year – demanded that the French government release the art works along with more than 2,000 disputed masterpieces.

It said the French should follow the example of Austria, which auctioned its disputed Holocaust-era art to raise funds for Holocaust survivors. A compromise solution would be to pay compensation to survivors without auctioning the art.

However, French officials angrily rejected the Jewish group's suggestions, saying it would be illegal under French law for the government to auction works of art that it did not own. France said it had been holding the works of art as a temporary custodian since the war.

The officials insisted that the French government had already published the list of the 2,000 works of art and was committed to waiting for the recommendations of the Matteoli commission on Nazi plundering from French Jews.

They said they had recently increased their funding of the commission – made up of politicians, academics and Jewish groups – to ensure it will complete its work by the end of next year.

Stuart Eizenstat, the US under-secretary of state, who has led the US government's efforts over the issue of Holocaust assets, said the conference was drawing up 11 "non-binding" principles to help countries deal with disputed art. In particular, Mr Eizenstat praised the Austrian government for its swift action on Holocaust art.

A list of 2,000 art dealers suspected by wartime US intelligence of trafficking looted art will be published by Jewish groups to help trace disputed artworks.

But the US government said it was not involved in the publication of the list and could not vouch for the accuracy of the names.

Jewish groups were also angry that the Washington conference was not due to discuss slave labour in concentration camps. A range of industrial groups are being sued in class action lawsuits in the US over use of slave labour in Europe.

The UK's Holocaust Education Trust plans to publish a report on the issue today, saying that "at least half of the top 20 companies in Germany today were involved during the war in the exploitation of slave labour".

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Khaleda Zia, leader of Bangladesh's opposition party, starts a mass hunger strike in Dhaka to drum up support for mid-term elections AP

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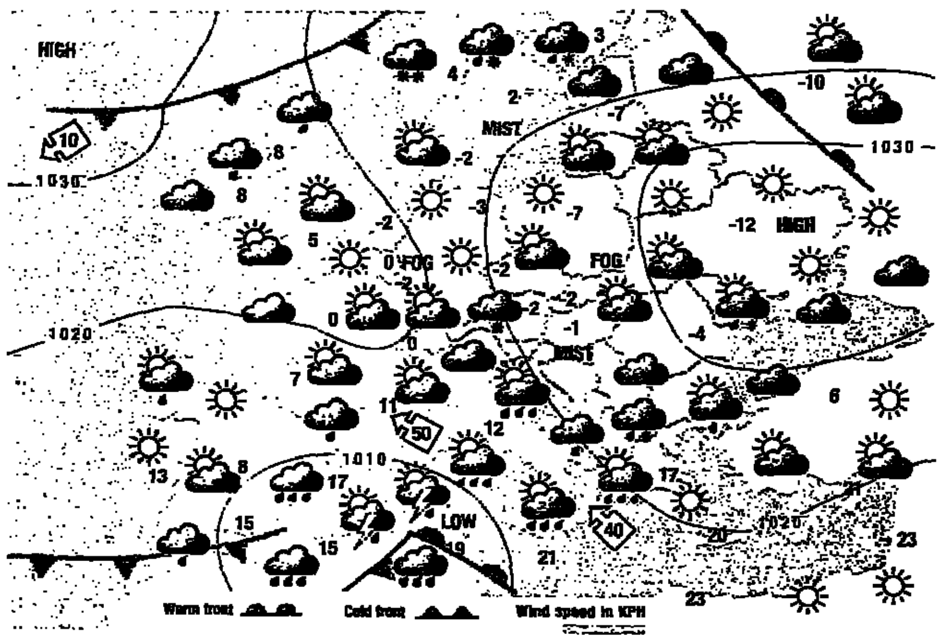
FT WEATHER GUIDE

Europe today

Denmark, southeast Norway and southern Sweden will stay dry but will be very cold with overnight frost and freezing fog clearing slowly. The rest of Sweden and Norway will be unsettled with snow showers and low temperatures. Most of eastern, central and northwest Europe will be settled but will remain cold with below average temperatures. The Mediterranean will be unsettled with showers, although the north of the Iberian Peninsula will be sunny.

Five-day forecast

Most of central, northern and eastern Europe will continue very cold and wintry with scattered snow showers and widespread severe frosts. The Iberian Peninsula will have a good deal of fine weather but the central and eastern Mediterranean will be unsettled with heavy showers.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	28
Accra	Fair	32
Algiers	Thunder	15
Amsterdam	Fair	-2
Athens	Shower	17
Atlanta	Sun	23
B. Aires	Fair	28
B.ham	Sun	4
Bangkok	Shower	32
Barcelona	Rain	14
Beijing	Fair	0
Belfast	Shower	8
Belgrade	Cloudy	2
Berlin	Sun	-3
Bermuda	Fair	25
Bogota	Cloudy	20
Bombay	Sun	33
Brussels	Fair	0
Budapest	Fair	-1
C.hagen	Fair	-2
Cairo	Sun	22
Caracas	Fair	29
Cardiff	Fair	5
Casablanca	Shower	16
Chicago	Fair	17
Cologne	Fair	1
Dakar	Fair	29
Dallas	Rain	19
Delhi	Sun	26
Dubai	Fair	28
Dublin	Cloudy	7
Dubrovnik	Fair	5
Edinburgh	Cloudy	7
Faro	Sun	14
Frankfurt	Fair	1
Geneva	Cloudy	0
Gibraltar	Shower	16
Glasgow	Shower	8
Hamburg	Fair	-4
Helsinki	Sleet	3
Hong Kong	Shower	22
Honolulu	Sun	28
Istanbul	Shower	11
Jakarta	Cloudy	32
Jersey	Cloudy	4
Johannesburg	Cloudy	22
Karachi	Sun	30
Kuwait	Shower	24
L. Angeles	Fair	18
Las Palmas	Shower	21
Lima	Fair	23
Lisbon	Sun	13
London	Cloudy	5
Lux.bourg	Fog	-2
Lyon	Fair	2
Madeira	Shower	18
Madrid	Fair	9
Majorca	Thunder	17
Malta	Fair	21
Manchester	Fair	5
Manila	Shower	27
Melbourne	Fair	23
Mexico City	Sun	23
Miami	Thunder	28
Milan	Fair	4
Montreal	Cloudy	8
Moscow	Fair	-10
Munich	Fair	2
Nairobi	Thunder	28
Naples	Shower	15
Nassau	Fair	27
New York	Sun	16
Nice	Fair	11
Nicosia	Fair	21
Oslo	Fair	4
Paris	Fair	2
Perth	Sun	27
Prague	Cloudy	-2
Rangoon	Fair	30
Reykjavik	Snow	-4
Rio	Sun	27
Rome	Shower	12
S. Frsco	Rain	11
Seoul	Fair	2
Singapore	Cloudy	30
Stockholm	Cloudy	2
Strasbourg	Fair	-1
Sydney	Sun	26
Tangier	Shower	14
Tel Aviv	Fair	23
Tokyo	Shower	14
Toronto	Fair	11
Vancouver	Rain	8
Venice	Fair	9
Vienna	Cloudy	-2
Warsaw	Sun	-7
Washington	Sun	21
Wellington	Shower	16
Winnipeg	Fair	7
Zurich	Cloudy	0

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Week 49

INSIDE

Sanofi, Synthélabo to announce link
Sanofi and Synthélabo, the second and third-biggest French pharmaceuticals groups, will today announce the merger of their activities. The deal should create the world's 19th biggest drugs group in turnover terms. **Page 18**

Global chill finally arrives in Africa

Much of sub-Saharan Africa has been shielded from the worst of the global downturn – indeed it has attracted buyers for a large part of this year. Ghana's stock exchange, for example, more than doubled in US dollar terms in March after a visit by President Bill Clinton (above) the same month. However, signs of a chill wind are starting to be felt by African stock markets. **Emerging Market Focus, Page 38**

Texaco seeks to consolidate rank
After the Exxon-Mobil tie-up, Texaco says it is in no hurry to find a partner, but that it is actively eyeing links and buys to reinforce itself as the third-biggest US oil group. **Page 19**

Arcadia prompts Christmas worries
Shares in Arcadia, the UK fashion retailer that includes Burton menswear, Dorothy Perkins and Principles, fell 26 per cent on a profits warning. A warning from Hornby, the toy maker, further increased concerns that the sector is facing a gloomy Christmas. **Page 22; Lex, Page 22**

Indonesian groups start buying debt
Indonesian groups are starting to buy back their debt, offering hope that the country's $80bn private debt overhang will diminish. Asia Pulp & Paper, of the Sinar Mas group, and Astra International, the car group, have made moves to buy back bonds. **Capital Markets, Page 26**

Australian cotton bucks global trend
The Australian cotton sector is booming, in contrast to spiralling global prices. A weak Australian dollar, and the fact that local cotton is priced against US cotton futures, has helped boost Australia's cotton growers. **Commodities, Page 28; Editorial Comment, Page 15**

Euro may further polarise Sweden

The onset of the euro may expose the growing gulf between Sweden's largest exporters – such as Ericsson, the telecommunications giant, and the smallest manufacturers. There are widely differing attitudes to the currency, from those actively preparing for it and those devoting little or no time to it. **Business and the euro, Page 25**

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MARKET STATISTICS

Boeing falls 17% after profits alert

Asian economic crisis clouding company's future

By Christopher Parkes in Los Angeles

Boeing lost 17 per cent of its stock market value yesterday morning after the world's biggest aerospace group stung investors with sharply reduced profit predictions and a warning that Asia's economic crisis could last five years.

Bill Clinton, US president, said he was "very concerned" about Boeing's announcement. "I think it is clearly a result of the global financial crisis and in particular the economic problems in Asia," he added.

"I can't tell you how important it is from my point of view for the United States to be actively involved in trying to restore the conditions of growth in Asia."

Other aerospace companies in the US and Europe saw shares fall as the news reverberated through world markets. Northrop Grumman, a leading Boeing components maker, saw its shares drop more than 6 per cent.

British Aerospace shares slipped in London and the gloom spread to other general engineering companies likely to suffer a drop in demand.

The news of production cuts, swingeing job losses and forecasts that 1999 profits could be 25 per cent lower than the $2bn the company forecast this summer reawakened speculation that more management changes could be on the way. "Shareholders are going to put pressure on the board," said one analyst.

Most attention is expected to fall on the role of Phil Condit, group chairman, who earlier this year sacked Ron Woodard – the head of the commercial aircraft division which is the source of the company's difficulties.

Harry Stonecipher, chief operating officer, said the future was still clouded by the Asian economic crisis. "There is really no market growth," he added. "It is not a pretty picture."

Although everyone he and Mr Condit had met on recent visits to the region said the situation would persist for one or two years, "we think this thing will go on for two to five years... I hope it's three".

That could prolong the agony for a company which has been struggling for more than a year to recover from last autumn's production crisis – which crippled efforts to increase output – and has since been hit by fading Asian demand. The company said it expected to deliver 490 commercial aircraft in 2000, more than 20 per cent fewer than next year's planned total. Meanwhile, operating profit margins would hover below 3 per cent, compared with 10 per cent and more earlier this decade.

Of the 48,000 job cuts – 20 per cent of the group's current total, and 20,000 more than announced in July – 80 to 90 per cent would be made in the civil aircraft division, Mr Condit said. Most would affect plants around its Seattle base, which employ 11,000.

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ITALIAN MOTORCYCLE GROUP APPOINTS CREDIT SUISSE FIRST BOSTON TO EXPLORE PROSPECTS FOR AN IPO

Ducati in plan to list early next year

Leader of the pack: Ducati rider Carl Fogarty, pictured here ahead of team mate Pier-Francesco Chili, has signed a new contract Picture: AP

Ducati, the Italian motorcycle company, is planning a stock market listing early next year as it continues a turnaround in its fortunes after being rescued from near collapse in 1996.

Ducati, whose products rival those of Harley Davidson for buyers of top-of-the-range motorcycles and are a feature on the world's racing circuits, has appointed Credit Suisse First Boston to explore prospects for an initial public offering. Although there is no firm timetable and any issue will depend on stock market conditions, executives are keen to float Ducati in the first half of 1999.

Based in Bologna, the company was bought in 1996 by Texas Pacific Group, a US private equity firm, in a L520bn ($310m) transaction.

At that time, Ducati was unable to pay either its employees or its suppliers, and the reliability of its motorcycles was also being questioned. However, revenues have recovered from a long slump after a restructuring of the company's marketing and production methods.

Federico Minoli, Ducati president and chief executive, said yesterday the group was "the most profitable motorcycle company in the world", although he declined to give figures.

Ducati was producing only 20 bikes a day when Texas Pacific acquired control, but it has raised daily production to 160 and expects to sell about 28,000 motorcycles this year.

Ducati had revenues in 1997 of L383bn. Mr Minoli said sales in the first nine months of this year rose 23 per cent over the same period in 1997. Its share of the market for expensive motorcycles also rose last year from 5 per cent to 7 per cent.

Ducati has managed to retain its pole position in motorbike racing. It won the world superbike championship this year for the seventh time in nine years, and Briton Carl Fogarty, its leading rider, recently signed a new contract to stay with the company for next season.

Abel Halpern, managing director at Texas Pacific in London, said the private equity firm was "looking at all its options" for Ducati, in which it has a 72 per cent stake. "The company has a very strong growth trajectory and it makes money," he added. "We are very satisfied with our investment."

He declined to speculate on what Ducati's IPO or on what the company might be worth, but Texas Pacific typically seeks returns of more than 40 per cent a year on its investments.

Deutsche Bank's Italian private equity arm owns 25 per cent of Ducati, and private investors own the remainder.

US store chain in winter profits warning

By Richard Tomkins in New York

Hopes of a prosperous Christmas for US retailers took a battering yesterday when Sears Roebuck, the nation's second biggest store group, delivered a profit warning for the final quarter.

The company said domestic revenues had fallen 4.5 per cent to $2.61bn last month, a period that included the start of the busy shopping season between Thanksgiving and Christmas Day.

Underlying earnings per share, it said, would increase "at a low single-digit percentage rate" for the full year from last year's $3.27. The company had previously been guiding analysts towards a mid-single digit increase.

The announcement contrasted sharply with recent US media reports of a busy opening to the Christmas season, with shoppers crowding into stores over the holiday weekend that followed Thanksgiving Day last Thursday.

Nearly all retail stocks fell after the announcement, with those of big department store chains particularly hard hit.

With consumer confidence still high in the US in spite of economic crises elsewhere, retailers have been looking forward to record-breaking sales this Christmas, capping an unusually profitable year.

The National Retail Federation, an industry body, has predicted that sales of general merchandise, clothing, toys and home furnishings will increase by 6 per cent in the fourth quarter, a little less than in earlier quarters but matching the same period least year. Wall Street analysts said the sales downturn at Sears did not necessarily indicate a wider decline, because Sears was suffering problems specific to the department store sector.

Thomas Tashjian, an analyst at NationsBanc Montgomery Securities, said recent stock market declines had shaken confidence among post-war baby boomers, causing them to become more value-oriented and prompting a switch in shopping from department stores to discount stores.

"Department stores are also dealing with an issue of being incredibly predictable," he added. "They are boring – they all have the same vendors, and often even the same fixtures in their stores, and consumers are saying, 'This stuff is yesterday'."

Richard Church, an analyst at Salomon Smith Barney, said Sears was being squeezed between the discount stores, which had improved their clothing offerings, and the more up-market department stores, which were offering branded goods at competitive prices. "At this point I don't think we have seen all the downside in terms of fourth quarter earnings risk," Mr Church said.

SFE and Dow Jones to set up Asia-Pacific index

Sydney seeks to attract European and US investors

By Gwen Robinson in Sydney

The Sydney Futures Exchange and Dow Jones Indexes have teamed up to create a set of indices exclusively licensed to SFE as the basis for exchange-traded derivative products.

The agreement, the first of its kind in the Asia-Pacific region, highlights growing rivalry between the region's capital markets.

It is the latest aggressive move by SFE to attract regional as well as European and US investors seeking asset diversification before the euro is introduced next month.

The indices, to be known as the Asia Pacific Extra Liquid Series, would be region, country and sector-specific.

They would provide the basis for exchange-traded, index-linked products including futures, options, funds and warrants, said David Moran, president of DJI in Australia.

Les Hosking, SFE chief executive, said the first two or three indices in the series would be launched in the second quarter next year to coincide with SFE's move to around-the-clock screen trading on its new Sycom IV platform.

The composition of the indices will be finalised after consultation with fund managers in Europe, the US and Asia as well as Australia.

The first set is likely to be linked to specific Asian equity markets, followed by other country, region and economic-sector indices, and ultimately fixed-income and specialised indices.

"Whether it's India or whatever country, we would obviously look for the most liquid markets," said Mr Hosking. "But the index designs would be much more sectoral and use screening methodology not utilised by the broad-based benchmark indices."

The move comes amid intensifying regional competition, illustrated by the recent dispute between Hong Kong Futures Exchange and Singapore International Monetary Exchange (Simex) over Singapore's launch last month of a Hong Kong equity index futures contract based on an index built by Morgan Stanley Capital International.

Simex also plans to list a futures contract based on the Thai stock exchange index, and has announced a move to full electronic trading in its campaign to be Asia's financial hub.

The agreement between SFE and DJI would strengthen Australia as a regional financial centre, said Mr Hosking. The APELS indices would generate unique derivatives products on the only regional futures exchange trading 24 hours a day.

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Total tries to raise support for PetroFina purchase

By Robert Corzine

Total, the French oil group, yesterday launched an investor relations blitz to overcome lukewarm shareholder support for its proposed takeover of PetroFina of Belgium.

Doubts have arisen about the 37 per cent premium Total is paying for PetroFina and the extent of possible cost savings and synergies between the two groups.

In Paris yesterday Total's shares slipped FFr28, or 4.5 per cent, in a falling market to close at FFr590, extending a 12 per cent loss on Tuesday when the deal was announced.

Thierry Desmarest, Total's chairman, who will lead the combined Total Fina group, acknowledged that the premium was "relatively high". He also accepted that "at first glance, it may look like a step change in Total's strategy".

Mr Desmarest and François Cornélus of PetroFina, set to become vice-chairman, met leading shareholders in London yesterday afternoon before flying to New York to rally US investor support.

Mr Desmarest admitted that "portfolio managers need more time to understand the deal", which would create the third biggest European oil company and sixth largest in the world.

In recent years, Total has concentrated on investments in more lucrative upstream oil and gas exploration and production, while maintaining a cautious approach to the capital intensive and generally less attractive refining and marketing business. That strategy has been warmly received by investors.

Yesterday Mr Desmarest insisted Total intended to retain that strategy and apply it over the enlarged group, although there would be a "period of adjustment" when the structure of the combined assets would diverge substantially from the current Total model.

It should take until 2005, for example, to "re-balance" upstream oil and gas production with refining capacity, which initially will be 30 per cent higher than oil and gas output.

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Rocky ride for Desmarest, Page 18
Texaco seeks alliance, Page 19

AEROSPACE FRENCH GROUP SET TO DIVEST ALL OR PART OF ITS INTEREST IN AVIONICS JOINT VENTURE WITH THOMSON-CSF

Aerospatiale near to deal on Sextant

By Alexander Nicoll and David Owen in Paris

Aerospatiale of France is to give up all or part of its interest in the Sextant avionics company jointly owned with Thomson-CSF under an agreement, expected to be reached in the next two weeks, which will smooth the way to the aircraft maker's privatisation next year.

The aircraft company is to be *merged with* the Matra defence interests of the private sector Lagardère group under a plan announced in July.

According to estimates within the companies, the combined value of the new group will be about FFr45bn ($8bn), which would put a valuation of some FFr9bn on the 20 per cent stake to be floated on the stock market in March or April. Matra is thought to be worth about FFr15bn and Aerospatiale about FFr30bn.

Yves Michot, Aerospatiale chairman, has been touring the US this week to explain the restructuring plans to potential investors. However, the transaction cannot go ahead unless agreements are finalised with other companies with which they have joint ventures or other arrangements.

The most important of these will be with Thomson-CSF, the defence electronics company. It is close to reaching an agreement with Aerospatiale settling arrangements *for the two* groups' interests in avionics, *missiles and satellites.*

Thomson-CSF objects to Aerospatiale's intention to exercise an option to increase its stake in Sextant Avionique, which makes electronics equipment for civil and military aircraft, to 50 per cent – it is currently owned 70 per cent by Thomson-CSF and 30 per cent by Aerospatiale.

Denis Ranque, Thomson chairman, believes it is logical for Thomson-CSF as an electronics company to control Sextant.

He is understood to be concerned that Sextant could be disadvantaged in winning orders from other aircraft makers if it were closely allied with Aerospatiale, a partner in the Airbus consortium.

Aerospatiale is expected to give up its option and may sell out of Sextant completely. In return, Thomson-CSF is likely to renounce its right to go to court over Aerospatiale's return to the satellites business.

When Thomson was res*tructured*, it acquired Aerospatiale's satellite business. Aerospatiale undertook not to take a controlling stake in another entity in that sector for a certain period.

Thomson-CSF has rejected a request to inject its missiles business into those of Aerospatiale and *Matra, but* will undertake to buy missile *equipment* from Aerospatiale while preserving its *own business* in missile systems.

On missiles, the addition of Aerospatiale's interests to Matra's creates a potential imbalance in the 50:50 joint venture with British Aerospace, Matra BAe Dynamics.

An agreement with BAe substituting the new Aerospatiale for Matra in the Matra BAe Dynamics venture is also necessary, as well *as with General Electric* Company of the UK, which also has a joint venture, Matra Marconi Space.

PHARMACEUTICALS FRESH CONSOLIDATION

French groups set to merge drugs units

By David Owen in Paris and David Pilling in London

Sanofi and Synthélabo will *today announce* the merger of their pharmaceuticals activities in the second tie-up this week involving a leading French drugs group.

Subject to unlikely eleventh-hour hitches, *the two* companies – which are the second and *third biggest* French pharmaceuticals groups – *are* expected to reveal that they are moving their pharmaceuticals assets into Sanofi-Synthélabo, a new holding company.

Elf Aquitaine, the oil group which is *Sanofi's* majority shareholder, is expected to end up with 34-35 per cent of the new entity and L'Oréal, the cosmetics group which plays the same role at Synthélabo, with some 19 per cent.

The deal, which should create the world's 19th biggest drugs group in turnover terms, is understood to have secured board approval last night.

The transaction will not include Sanofi's beauty business, which includes the Yves Saint Laurent brand. This is understood to have been slated for separate disposal.

Based on 1997 figures, the combined group would have annual sales of more than FFr30bn ($5.3bn).

The market capitalisation of the two companies is currently more than Ecu35bn.

In Paris yesterday, Sanofi *shares fell FFr70, or* 7 per cent, to FFr930. Those of Synthélabo slipped FFr31, or 2.5 per cent, to FFr1,199.

The long-rumoured tie-up is widely seen as an effort to achieve critical mass in a fast-consolidating global industry. Indeed the new company will go a long way towards achieving this in Europe, where it will be number six.

Big questions will remain about the strength of Sanofi-Synthélabo *in the* vital US market, however, and some observers might see today's move as, in essence, an interim measure prior to an eventual tie-up with a third, probably US, group.

Another uncertainty is whether Elf will indicate a long-term intention to retain *its entire stake in the new* company.

The oil company first indicated it was ready to sell part of its Sanofi holding as long ago as December 1996. A shareholders' agreement is, however, understood to have been signed by the two parents in an effort to sustain the new entity's strategic *momentum.*

Jean-François Dehecq of Sanofi is expected to emerge as the number one in the new grouping, with Hervé Guérin, his Synthélabo counterpart, likely to be number two.

Sanofi is being advised by Morgan Stanley and Synthélabo by Lehman Brothers. None of the parties directly involved in the transac*tion would comment* yesterday.

● France's Rhône-Poulenc and Germany's Hoechst agreed on Tuesday to merge their pharmaceuticals and agro-chemicals businesses to create Aventis, the world's biggest life sciences company, writes David Owen.

Rhône-Poulenc shares continued to fall in Paris yesterday as investors reacted coolly to news of the *deal.* The shares closed down *FFr7.30, or* 2.8 per cent, at FFr256.10, after the more than FFr20 decline on a weak French market the previous day.

However the market's poor reception of the deal yesterday prompted Rothschild, one of the company's advisers on the merger with Hoechst, to comment: "The market has not realised yet that Aventis has the potential to become one of the most powerful life sciences companies in the world."

Air France outlines strategy

By David Owen in Paris

Air France, the French national carrier, is likely to decide next year with which of its two US partners – Continental Airlines and *Delta* Air Lines – it will join forces in an attempt to build a new global airline alliance.

Jean-Cyril Spinetta, Air France chairman, said yesterday the group's ambition was to build the second or third global alliance with one big American partner.

"The major *alliance* will start off with a large Euro*pean operator* and a large American operator: that is the first step we are seeking," he said.

The French carrier, which is earmarked for partial privatisation early next year, has code-sharing agreements with more than 20 airlines world-wide, but is not yet in any global partnership, such as the Star *Alliance* or the Oneworld Alliance.

The Star Alliance is made up of Germany's Lufthansa, United Airlines of the US, Air Canada, Thai Airways and Varig of Brazil. Oneworld includes British Airways, American Airlines, Cathay Pacific, Canadian Airlines and Australia's *Qantas.*

Yesterday's developments *came as the French company* reported a steep fall in first-half income. The results were heavily influenced by the cost of a damaging 10-day pilots' strike, which was called off just before the World Cup soccer tournament in June.

Net attributable profits for the six months to the end of September fell from FFr1.75bn to FFr1.34bn *($238m) on turnover that* was virtually flat at FFr29.9bn.

In spite of the downturn, Mr Spinetta indicated that he felt the right conditions for the planned share placement were now in place.

He recently suggested the operation would probably come in the first *quarter of* 1999.

He said that four merchant banks – Crédit Agricole-Indosuez and Morgan Stanley for the state, and Lazard and Société Générale for Air France – were working on a valuation.

Under plans outlined in February, the Socialist-led French government would dispose of up to 47 per cent of the carrier's *capital, while* pledging to remain the *majority investor.*

The company estimated the strike's impact on profits at FFr1.3bn. By contrast, the figures were helped by a FFr188m exceptional gain on the sale of 34 per cent of Amadeus *France*, the French marketing company for *Amadeus*, the *global* travel distribution and seat reservation system.

The *group* said the growth of passenger traffic in the first half reached 5.1 per cent and 8 per cent in the second quarter. Its load factor rose by 0.4 percentage points to the "exceptional" level of 76.5 per cent.

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Jean-Cyril Spinetta: planning to build a global alliance Reuters

OTE chief quits after clash with government

By Kerin Hope in Athens

The chief executive of OTE, Greece's partly privatised telecommunications operator and the country largest company, resigned yesterday after clashing with the government over corporate governance and the timetable for lifting its monopoly of public voice telephony.

George Chryssoulouris *was appointed in January* by Costas Simitis, the Socialist *prime minister*, with a brief to modernise the company.

But he has been in dispute with Tassos Mantelis, the transport minister and several board members over the day-to-day running of the company.

"I tried to run OTE like a private sector company, but the government wanted to interfere. If they want the company to operate like a public sector enterprise, there's *no place for me,*" Mr Chryssoulouris told the FT.

His resignation underlines the government's problems in modernising big state enterprises, where managers traditionally are selected on political criteria, analysts say.

OTE's statutes make it independent of the government, but the Socialists refuse to allow the privatisation of more than 49 per cent of the company. The government holds 55 per cent.

Mr Chryssoulouris's departure also comes three weeks *after OTE became the first* Greek company to be listed on the New York stock exchange.

US institutional investors bought most of OTE's $1.1bn secondary offering last month and now hold about 25 per cent of the company.

Several institutions yesterday voiced concern about OTE's prospects following Mr Chryssoulouris's sudden departure.

He also clashed with the transport ministry over a *plan to open up public voice* telephony to competition on *January* 1 2000, one year earlier than planned. Greece is being pressed by the European Union to speed liberalisation, but Mr Chryssoulouris argued that the country's regulatory framework should first be reformed to ensure fair competition.

"We have to liberalise the telecoms sector as quickly as we can, but you can't do it without having an effective referee. *There's some* work to be done before that *becomes* the case," he said.

During his 10-month tenure, OTE speeded up its digitalisation programme and launched Greece's third cellular network.

● Yesterday's planned launch of share-trading in Panafon, the Greek mobile telephone operator, was postponed because of settlement and custody problems over shares *bought by US* institutional investors, Athens bourse *officials* said.

Warburg Dillon Read, the lead underwriter for last month's Dr196bn ($694m) public offering of Panafon shares, said trading would start on December 7.

It said the delay was a result of strong demand from overseas institutions investing in Greece for the first time.

Total chairman may need to pour oil on troubled waters

Desmarest could face rocky response to merger from financiers, writes **Robert Corzine**

Thierry Desmarest, Total *chairman, was his usual* enthusiastic self when he arrived in London yesterday to promote his takeover of PetroFina of Belgium. But Total's road show to sell the deal to key world financial centres looks set to be a rocky one, with shareholders uncertain how to interpret this week's events.

The uncharitable view is that Mr Desmarest may be *in danger of scoring an own* goal in taking over PetroFina. After all, investors and analysts alike on both sides of the Atlantic Ocean had embraced the company in its current guise.

Although Total is a "mini-major" when compared with the giants of the international integrated oil sector, *in recent years it has dis*played a commercial savviness and nimbleness which pleased investors.

The fact that it was one of the few European oil companies to attract a sizeable US following was evidence that its strategy – to take on the *biggest companies in the* industry in competing for large, low cost reserves while carefully controlling its involvement in capital intensive but generally low margin areas such as refining and bulk petrochemicals – *had struck a resonance* among a wide range of investors.

The sceptical market reaction to the deal suggests there is a real worry that the PetroFina deal contradicts the stated strategy by taking Total much more deeply into *refining and marketing,* while adding a bulk petrochemicals dimension to the business.

Mr Desmarest and his colleagues were clearly surprised at the degree of scepticism that greeted the deal

Although Mr Desmarest denies there has been a fundamental change in direction, it is clear that the combined group will have a *different composition that* may unsettle some investors, at least in the short term: "They thought they were buying an apple and it now turns out to be an orange," is how one person familiar with the deal *summed up* the sceptical market reaction. "But investors have to evaluate the orange relative to the other oranges out there."

Mr Desmarest yesterday insisted that the strategy remains the same even if the business blend is different.

Although the combined group will have a greater *downstream exposure,* especially in north-west Europe, it will be *of a higher quality,* he said: "Besides, having a greater weight in the downstream in a period of low prices is not bad."

Mr Desmarest and François Cornélis, the head of PetroFina, *insist* there is a "huge potential for synergies *and optimisation*" of the group's European refining and *marketing activities* – perhaps the centrepiece of the merger – while acknowledging that there are "open questions" about the future of the US downstream assets.

Mr Desmarest said the rapid growth of Total's oil *and gas* production profile will continue, even though more *capital may have to be* directed to some parts of the downstream businesses to make them more competitive.

He expected that the integration of upstream assets would be "very easy", as there was little overlap. In addition combined production growth would remain low cost, even though a greater proportion will come from industrialised regions such as the North Sea, *rather than the developing* countries with which Total *is usually associated.*

As for the controversial *petrochemicals element*, Mr Desmarest noted that they are "very competitive assets" that will make up only a third of the combined group's overall chemical mix, with specialist products accounting for two-thirds of the total.

Mr Desmarest and his colleagues were clearly sur*prised at the degree of scep*ticism that greeted the deal, accustomed as they are to a high degree of investor trust and confidence in their abilities and strategy.

The key issue for investors may lie less in the technical complexities of the integration than in whether they believe Mr Desmarest and *his expanded management* team can "rebalance" Total Fina in the same way they have transformed Total over the past five years.

Thierry Desmarest: sees huge potential for synergies AP

Deutsche Bank in Belgian buy

By Samer Iskandar in Paris, Tony Barber in Frankfurt and Clay Harris in London

Deutsche Bank said yesterday it had agreed to pay DM1bn ($596m) for *Crédit Lyonnais Belgium.* With the disposal, the *French bank has achieved* more than half the FFr680bn ($121bn) asset sale programme imposed on it by the European Commission in exchange for approving an estimated FFr100bn-FFr150bn of state aid.

For Deutsche, the deal shows that its proposed acquisition of Bankers Trust, the eighth biggest US bank, has not diminished its appetite for expansion in Europe. It is already the largest foreign bank in Italy and has considerable retail operations in Spain. It intends to merge its existing Belgian business with that of Crédit Lyonnais Belgium.

The *Belgian* sale was one of the three main disposals required by the Commission. The others are a 51 per cent *stake in Germany's BfG* Bank, accounting for FFr200bn in assets, and two Spanish operations, with a total of FFr20bn in assets.

In the case of BfG, several suitors are thought to have expressed interest, with a sale likely early next year.

In Spain, the bank is conducting exclusive talks with two savings banks, Caja Duero – which would buy Crédit Lyonnais España – and Caja Madrid, which would buy Banco Jover.

In exchange for the Commission's clearance for the state subsidy, the French government pledged to reduce its stake in Crédit Lyonnais from 90 per cent to less than 10 per cent by October 1999.

Between 1995 and 1998, *Crédit Lyonnais had* sold some FFr155bn of assets, including *subsidiaries in the* Netherlands, Ireland and Italy. *Assets in Scandinavia,* Greece and Italy were sold in the months *after the agree*ment with the Commission. These were estimated at "tens of billions of francs" by analysts.

The Belgian sale leaves the French bank with some FFr320bn of assets to sell, with just under a year before the deadline. After Spain and Germany, the balance will be FFr100bn, which should include activities in Australia and Latin America, as well as a few remaining assets in Europe.

The Commission is also requiring Crédit Lyonnais to dispose of 20 per cent of its domestic branch network.

The bank's essential inter*national centres – including* New York, Tokyo, Singapore, *Hong* Kong, Luxembourg, London and Switzer*land – remain largely intact.*

Deutsche's main German rival, Dresdner Bank, had identified Belgium as a target for expansion, and banking sources said it had looked at Crédit Lyonnais Belgium as a possible target.

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CEREAL US GROUP SEEKS TO LIFT COMPETITIVENESS IN LACKLUSTRE MARKET

Kellogg axes more than 500 jobs to cut costs

By Nikki Tait in Chicago

Kellogg, the US cereal manufacturer, is to cut more than 500 head-office and North American jobs and a further 240 contract positions in an effort to cut costs and bolster its competitiveness in the lacklustre US cereal market.

The move, announced yesterday, is the latest in a series of restructuring announcements by Kellogg, which reported a 14 per cent fall in after-tax profits in the first nine months of 1998 and has warned that earnings for the year could be down by one-fifth.

In 1995-96, the Michigan-based group cut about 1,200 manufacturing jobs, although the cost-savings failed to restore the company's fortunes.

Kellogg said it expected that the latest redundancies would result in annual savings of about $105m, beginning in 1999. It will take a one-off charge of about $70m before tax to fund the move in the fourth quarter of 1998, knocking about 11 cents a share off after-tax earnings.

There had been much speculation over the size of the impending jobs cuts in North America, where Kellogg, the world's largest cereal company, has a 32 per cent market share. The 525 redundancies are at the higher end of expectations.

However, Kellogg's shares slipped $1 in yesterday's weak stock market to stand at $36 by midday.

The company's problems stem in part from the decline in the US cereal market and the change in people's breakfast habits.

In the past five years the US market has slipped in value from about $8bn a year to about $7bn. At the same time, private-label competitors have taken a larger slice of the market, and Kellogg's market share has fallen from about 40 per cent.

As part of its effort to counter these trends, Kellogg recently launched a new line of grain-based food products, which are advertised as fighting cholesterol.

Arnold Langbo, chairman, said yesterday that the latest cost-cutting moves were part of a general strategy to "increase growth in ready-to-eat cereals, accelerate expansion of our convenience foods, and continuously improve the cost-efficiency of our operations worldwide".

NEWS DIGEST

MANUFACTURING

ITT Industries to cut up to 1,200 jobs in revamp

ITT Industries plans to streamline its manufacturing operations, cutting up to 1,200 jobs and taking a one-time charge of up $400m to pay for the restructuring. The moves come after the industrial company sold its auto electrical systems unit to France's Valeo for $1.7bn and its brake and chassis division to Germany's Continental for $1.9bn in September.

The group, which employs about 35,000 worldwide, said the charge would be between $370m and $400m and would be taken in the fourth quarter. Before yesterday's announcement, analysts had predicted ITT would earn 55 cents a share in the quarter, down from $72m, or 60 cents, a year earlier.

"We anticipate a major restructuring across all of our units, particularly in our pumps business and our connector business," said Travis Engen, chairman.

ITT is one of the world's biggest makers of pumps and fluid-control systems. **Reuters, New York**

INVESTMENT BANKING

WDR shakes up management

Warburg Dillon Read, the investment banking subsidiary of UBS, has shaken up the management structure of its markets operations and named a replacement for one of the executives who lost his job because of the Swiss bank's SFr984m ($707m) after-tax loss on its exposure to the US hedge fund Long-Term Capital Management.

John Costas becomes head of rates in the place of Andrew Siciliano. He will be based in London, moving from Stamford, Connecticut. Mr Costas and his equities counterpart, Colin Buchan, will report to Markus Granziol, head of a new combined equities and rates division. A new treasury products division, to be headed by Bill Johnson, will take in foreign-exchange and precious metals trading, alternative asset management, exchange-traded derivatives and short-term interest rates and repos.
Clay Harris

GERMANY

Stinnes to sell DIY arm

Stinnes, the German distribution and logistics company, is to sell its do-it-yourself business to Rewe, the retailing group Rewe. Stinnes, currently a wholly owned subsidiary of the Veba industrial conglomerate, said the disposal was part of a strategy of concentrating its portfolio ahead of an initial public offering of 49 per cent of the company in the second quarter of 1999.

For Rewe, the acquisition of the DIY business, which comprises a chain of 138 stores with a total annual sales volume of approximately DM1.8bn ($1.1bn), is a further expansion of the home improvement market. Rewe's chain of DIY stores has DM3bn in annual sales and is market leader in Germany. The value of the deal was not disclosed. **Frederick Stüdemann, Bonn**

TYRES

Pirelli in Japan tie-up

Pirelli, the Italian tyres and cables group, yesterday forged a joint venture with Abe Shokai, the Japanese company that has traditionally marketed Pirelli products in Japan, to help double its sales by the end of next year.

The Italian company said it would support its new venture with a Y1.7bn ($13.8m) investment, the largest by an Italian company in Japan this year. The commercial joint venture will be managed and 51 per cent controlled by Pirelli's tyre subsidiary and will market and distribute car, recreational, motorcycle and agricultural tyres in Japan. The aim was to double volume sales to more than 600,000 units by next year, Pirelli said. **Paul Betts, Milan**

Murdoch faces Italian setback

By Paul Betts in Milan and John Gapper in London

Franco Bernabe: seems reluctant to invest in pay-TV AP

News Corporation, the international media company controlled by Rupert Murdoch, declared last night that it intended to enter the Italian pay televison market even if a deal with Telecom Italia collapsed.

The declaration came after Telecom Italia indicated that it might not proceed with a draft deal to form a joint venture to rival Canal Plus's Telepiù service. Telecom Italia was to have held a 51 per cent stake.

News Corp declared that "it may be that News Corp Europe will progress its plans independently of Telecom Italia" as a result of the Italian group's "change of policy". However, it would continue its talks with Telecom Italia.

There were also signs of political resistance to Mr Murdoch's move as the Italian government unveiled proposals to prevent any single broadcaster controlling more than 30 per cent of pay-TV rights for Italian soccer. News Corp had been preparing to bid L4,200bn ($2.5bn) with Italian and French partners to secure pay-TV rights for all first- and second-division league matches for the next five seasons.

However, Vincenzo Vita, the Italian undersecretary for communications, said yesterday the government planned to amend its new broadcasting legislation to set a 30 per cent limit on the soccer rights any single broadcaster can acquire. The Italian antitrust authority has endorsed the proposal.

The government's latest move, reflecting broad political anxieties over Mr Murdoch's Italian TV ambitions, has further complicated the magnate's Italian plans.

News Corp had hoped to clinch a deal quickly with Telecom Italia, but Franco Bernabe, Telecom Italia's new chief executive, is reviewing the deal negotiated by the former management, as well as options including Canal Plus.

He appears increasingly reluctant to invest in the high-risk, high-cost pay-TV business, and is coming under political pressure to delay any decision.

Salvatore Cardinale, the communications minister, yesterday revived an earlier government proposal to establish a single digital TV platform in Italy, instead of two competing ones.

He argued that a common platform would not breach European Union competition rules, because all content providers and broadcasters would have access to it.

However, a common platform, with the limit on soccer rights, would clearly weaken Mr Murdoch's efforts to gain a strong foothold in the country's fledgling pay-TV market.

Cisco in $126m purchase

Cisco Systems is to acquire PipeLinks for about $126m in stock, the latest of a string of acquisitions by the leading manufacturer of computer networking equipment, Reuters reports from San Jose, California.

Privately-held PipeLinks is a pioneer in the development of high-capacity routers capable of sending voice and data traffic over traditional circuit-switched phone networks and newer packet-switched internet networks.

Cisco has been a minority investor in PipeLinks since 1997. The acquisition has been approved by the boards of each company and is subject to various closing conditions.

It said the acquisition is intended to enable phone network operators to offer integrated voice and data network services at the edge of the network.

Cisco said it planned to take a one-time, after-tax charge of 3-6 cents a share in its current fiscal second quarter, ending January, to cover acquisition-related costs.

Prior to the charges, Wall Street had expected Cisco to earn about 36 cents a share in the current quarter, compared with 29 cents in the quarter ended January 1998, according to First Call.

OIL BIJUR PREDICTS BARREL PRICES AT $15

Texaco seeks alliances to reinforce rank

By Christopher Parkes in Los Angeles

Texaco is in no hurry to find a merger partner, but it is actively considering alliances and acquisitions to reinforce its position as the third-biggest US oil group, Peter Bijur, group chairman, said yesterday.

Cost-cutting projects already started would yield savings of $400m next year and $600m by 2000, when Mr Bijur expected oil prices to rise from current lows.

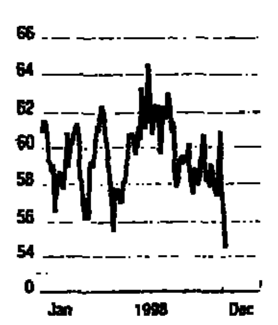
Addressing Wall Street analysts a day after Exxon unveiled its $75bn link with Mobil, Mr Bijur added that the group would increase capital spending next year, though all the growth would be focused on electricity generation rather than core oil and gas exploration.

Its capital budget for next year was $4.3bn, down from this year's planned $4.6bn, but still ahead of the $4bn which will be actually spent.

Mr Bijur predicted oil prices, about $11 a barrel on the New York Mercantile Exchange early yesterday, would average $15 next year and rise to $17.50 in 2000.

Group output was expected to rise in 1999 to a daily average of 1.32m barrels of oil equivalent from 1.30m this year. Observers consider Texaco to be a leading participant in an expected wave of oil deals following the formation of Exxon Mobil, in part because it appears to have extracted most of the potential economies from its existing businesses.

Texaco
Share price ($)



Source: Datastream/ICV

Others expected to join the next stage of the hunt include Chevron, Unocal, and Atlantic Richfield – all based in California – and European groups Eni of Italy and Spain's Repsol.

Texaco recently announced plans to cut its exploration and production workforce by about 1,000, or more than 12 per cent.

The redundancies will reduce the group's payroll by 5 per cent and are due to be completed by next spring.

The Texaco strategy of cutting costs while seeking partners is similar to other energy groups. Some estimates suggest aggregate US spending on exploration and production will fall 10 per cent next year.

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BMW/ROVER: FINDING THE RIGHT FIT

CAR INDUSTRY ROVER LOSSES BLAMED ON STRONG POUND AND WEAK MODELS

BMW reins in unruly charge

By Haig Simonian,
Motor Industry Correspondent

As attempts were made yesterday to talk up Rover's future after agreement on its radical labour flexibility deal, the key question that remained unanswered was why BMW had waited so long to grapple with its wayward UK subsidiary.

Rover is forecast to lose at least DM500m ($296m) this year under BMW's conservative accounting rules. That is nearly double the DM260m lost in 1997. This year's figure may actually be much higher. Analysts' estimates exclude the 3,000 job losses agreed under the new flexibility deal. Extra provisions for the redundancies will be added to this year's Rover accounts to give Werner Sämann, the new chairman, a clean slate when he takes over in January.

The strong pound has been one factor behind Rover's spiralling losses, making foreign sales less profitable as margins have been squeezed. In the UK the company has suffered from rising competition as foreign rivals have used their higher margins from currency gains to cut prices and bolster advertising and marketing.

Running Rover at arm's length with visits 'one day a week' may not have been ideal

Weak models have been another cause of Rover's problems. Part of the range has been replaced: BMW has been spending £500-£600m ($825m-$990m) a year on products and equipment since buying Rover in 1994. That has led to attractive new vehicles such as the Land Rover Freelander, the revised Discovery and the new Rover 75 saloon, due to go on sale next March.

But spending has so far excluded the small and medium-sized passenger cars that form the backbone of production at Longbridge, Rover's biggest factory that dates back decades and once built post-war Austins.

Declining demand for the 200 and 400 has been one of the main reasons for the steep fall in Rover's UK market share. In October this fell to a record low of 6.6 per cent. November's figure is not expected to be any better.

Rover's problems, signalled by a first set of 1,500 job cuts earlier this year, are now overshadowing BMW itself. Its share price came under heavy pressure this week amid rising concerns about Rover's losses and rumours of a split on the Munich board about how to deal with the UK side.

In announcing his resignation, Mr Hasselkus said he had underestimated the advantage the strong pound would give to Rover's foreign competitors and failed to react in time to the danger signals in the home market. In October, Renault for the first time overtook Rover to become the UK's third most popular car brand.

Mr Hasselkus's resignation also betrays a willingness to shoulder what may be the responsibilities of other BMW executives. Since buying Rover in 1994, BMW has been generous with new investment but less urgent in tackling deeper problems at its subsidiary.

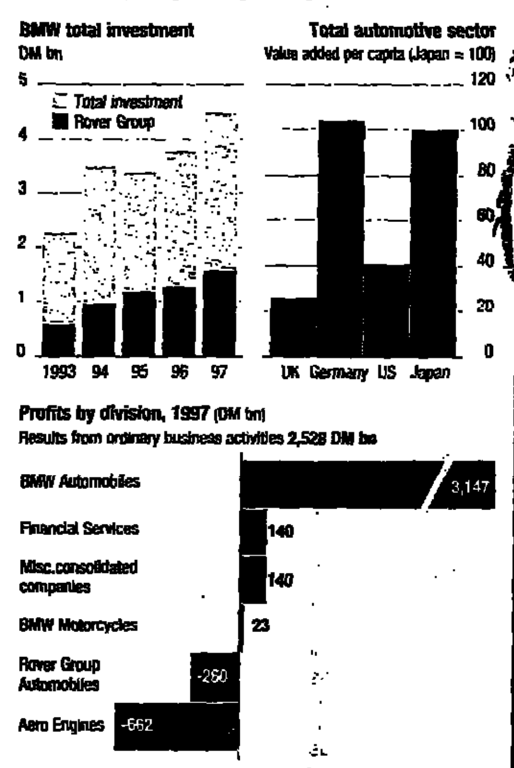
For two and a half years after the takeover, Rover's managers were left largely to their own devices. First Bernd Pischetsrieder, BMW's chairman, then Wolfgang Reitzle, the German group's number two, were titular chairmen. But, as Mr Pischetsrieder conceded yesterday, running Rover at arm's length with visits "one day a week" may not have been ideal. The attention to integration and corporate culture at DaimlerChrysler suggests others may have learned from BMW's mistakes.

Glorious past: Austin cars receive a final polish before leaving the old Longbridge works in 1946 PA

BMW recognised its failings when it appointed Mr Hasselkus, a board member, to run Rover in September 1996. Since then, links between the two companies have been strengthened and BMW has adopted a much more interventionist approach. That went further in October with the arrival of Christian John von Freyend, BMW's former financial controller, as Rover's new finance director.

Mr Pischetsrieder says there will be no further "Germanisation" of Rover. "We don't need German executives or British executives or US ones: we need good ones," he said yesterday. But what Rover needs above all, and especially at Longbridge, are attractive products. And those still appear a long way off.

How the group shapes up



Sources: company; McKinsey 'Driving Productivity & Growth in the UK Economy', Oct 1998

Made in England but controlled from Munich

BMW has lost patience with Rover, which is paying for its failings with its independence, writes **Graham Bowley**

It was in London that Bernd Pischetsrieder, BMW chairman, yesterday outlined the future of Rover. But the fate of the once-proud British company was decided many miles away, in BMW's futuristic headquarters in southern Germany.

It is unclear what forces within the Munich boardroom shaped events. Two possible explanations have been put forward. According to the more dramatic version, yesterday's pronouncements, which have ramifications across Britain's manufacturing industry, reflect management unrest deep within BMW.

These are centred around a bitter boardroom feud between the unassuming Mr Pischetsrieder and Wolfgang Reitzle, BMW's flamboyant development chief and the company's undisputed number two. In this scenario, Rover – and Walter Hasselkus, who yesterday resigned as Rover chief executive – are merely unwitting pawns in a wider political tussle.

According to this conspiracy theory, which resurfaced this week in the German press, Mr Reitzle is still seething about being passed over for the top job back in 1993.

Once the heir apparent to former BMW boss Eberhard von Kuenheim, Mr Reitzle was punished after it became known that he had been considering jumping ship to head rival German car group Porsche.

But he still harbours ambitions for the chairmanship and, so the theory goes, is using Rover's failings, which have undoubtedly weakened his rival Mr Pischetsrieder.

The resignation of Mr Hasselkus and the whittling down of much of Rover's independence – the inevitable result of the changes announced yesterday – is the sacrifice Mr Pischetsrieder is forced to pay, having favoured keeping Rover as an independent company within the group.

"They're at each other's throats. Pischetsrieder is pro-Rover, so by definition Reitzle is anti-Rover," said one company insider.

The second explanation is a more sober reading of events and more likely. This is that BMW's board is united but that they and shareholders (mainly the Quandt family, which owns more than 40 per cent of the company) and the supervisory board have finally lost their patience with Rover's failings.

These have been especially irksome given the success of competitors such as Volkswagen in turning round its own recent acquisitions, Seat of Spain and Skoda of the Czech Republic.

The failings have been rammed home by sharp falls in the BMW share price as investors have become worried by the company's inability to sort out Rover's problems and to close what Mr Pischetsrieder claimed is still a yawning productivity gap between the German and UK factories.

The result: out goes the softly-softly approach to Rover's integration favoured at first in the interests of British relations. Instead, BMW will begin the radical overhaul of Rover it should probably have launched when it took it over in 1994.

This means job cuts, imposing the flexible labour time models that bear the stamp of BMW's own Bavarian factories, and more German managers in Rover's factories. Out goes Mr Hasselkus, who had tried to protect Rover's independence. "This is a stepping up of BMW's pressure on Rover and Rover's independence has gone," said one analyst.

The appointment of a relatively unknown company insider, Werner Sämann, adds to the impression that BMW is keen to grab full control of Rover.

Mr Sämann, a professor at Berlin Technical University and currently responsible for BMW's engines and chassis, is unlikely to want to plough his own course. Instead, as BMW emphasised yesterday, he will be more interested in tackling Rover's many technical difficulties, which is exactly what the company needs right now. "He is a straight guy, very target orientated and tough," said one executive.

Regardless of the political battles that may or may not be raging between his superiors back in Munich, it will be up to Mr Sämann to bring Rover back to profit.

هكذا من الاصل

AUTOMOTIVE INDUSTRY GROUP FACES EXTRAORDINARY LOSSES OF Y80bn FOR FULL YEAR

Nissan accelerates asset sales to cut debt

By Alexandra Harney in Tokyo

Nissan, the Japanese car and truck group, is accelerating efforts to reduce its heavy debt burden by selling assets and turning idle properties into cash-generating businesses.

The company said yesterday it had agreed to sell 66.6 per cent of Nissan Graphic Arts, a wholly owned subsidiary that designs company brochures, to TBWA Worldwide, part of Omnicom, the global marketing group. The move follows Nissan's sale of a controlling stake in Nippo, its advertising arm, to TBWA in September.

Nissan would not comment on the price of the sale, which is expected to take place late this month. The timing would allow the car company to post additional extraordinary gains in the second half.

The company, which had a 36 per cent collapse in pretax profits to Y28.8bn ($236m) in the first half, said it would record Y80bn in extraordinary losses in the full year. Of this, Y40bn would be from valuation losses on equity holdings, Y30bn from restructuring costs, and Y30bn from the disposal of fixed assets. However, these losses would be offset by Y20bn in revenues from property sales.

Most of these charges had been taken in the first half, the company said. Extraordinary losses in the second half would be Y18.7bn, it added.

Nissan also confirmed plans to turn its Zama plant south of Tokyo, which suspended assembly operations in 1995, into a car showroom.

It is also negotiating to sell other assets, but refused to comment on talks with DaimlerChrysler, which has expressed an interest in taking an equity stake in Nissan Diesel, the truck manufacturing unit.

In November, Nissan pledged to reduce its interest-bearing debt from Y1,000bn to Y400bn after warning that it expected to record Y30bn in group net losses this year – the sixth year of losses in the past seven.

The group's restructuring plans include consolidating model platforms from 20 this year to five by 2005, and reorganising its lossmaking US operations.

Analysts, while applauding Nissan's efforts to improve its sales and finance operations in the US, have criticised the group's restructuring as "too little, too late". With Japanese domestic car production expected to fall below 10m units this year for the first time in decades, the US market will be the critical factor in determining Nissan's cashflow this year, they said.

Shares in the group gained Y7, or 1.8 per cent, to close at Y402.

Tenaga sells plant for M$740m

By Sheila McNulty
In Kuala Lumpur

Tenaga, Malaysia's national power utility, is selling a 330MW power plant to Powertek, an independent power producer, for M$740m (US$195m) as part of its efforts to streamline operations and cut costs.

Tenaga plans to concentrate on transmission and distribution.

Powertek will pay M$296m cash, with the rest payable over six years. The deal also includes an option for Tenaga to acquire up to 27.85 per cent of Powertek's equity between the third and sixth year. The balance paid during the period will carry annual interest of 7 per cent.

Powertek is the only Malaysian independent power producer in which Tenaga does not hold a stake. The deal also gives Tenaga representation on Powertek's board.

As the regional economic crisis struck last year, Tenaga moved to delay 60 transmission and distribution projects worth M$3bn.

Ahmad Tajuddin Ali, executive chairman, said at the time the utility had been hard hit by increasing loan costs due to the falling ringgit, given that its loan portfolio was largely denominated in foreign currency. Malaysia has since fixed the exchange rate at M$3.80 to the US dollar.

Tenaga reported net losses of M$3.1bn for the year to August 31, against a net loss a year ago of M$141m.

Tenaga expects to return to profitability next year if the ringgit remains pegged and electricity demand increases as expected. It said that once the preliminary agreement was sealed, it would sign a power purchase deal with a Powertek unit that would run the plant under an initial 21-year agreement.

Cathay pulls out of talks on PAL stake

By Louise Lucas in Hong Kong

Cathay Pacific, Hong Kong's de facto flag carrier, has pulled out of talks to take a stake in the troubled Philippine Airlines after failing to reach agreement on price and management control.

PAL said yesterday that talks had resumed with another unidentified foreign suitor and that a local group had stepped in, pledging $90m, or 60 per cent of the $150m needed for rehabilitation. However, the collapse of talks with Cathay leaves debt-ridden PAL looking vulnerable.

Joseph Estrada, president of the Philippines, yesterday called for a meeting with Cathay Pacific and Lucio Tan, PAL's controlling shareholder.

"If PAL closes down, many businesses will be affected so I have to go out of my way to see to it that negotiations will push through," he said.

But Cathay Pacific held out little hope of a turnround. It said it abandoned plans to take a stake in PAL after it became clear that serious differences between the various parties could not be resolved.

These include management control, which was key to Cathay Pacific, and valuation. Cathay Pacific earlier said it had made a provisional offer of up to 4bn pesos ($102m), and that this would include other foreign investors.

Cathay Pacific first entered into talks in early October, shortly after PAL was temporarily grounded by a dispute between management and workers. At that time Cathay Pacific operated a series of domestic charter flights, at the request of the Philippines government.

Philip Chen, chief operating officer at Cathay Pacific, said the breakdown in talks was unfortunate. "We really felt we could have made a significant contribution towards the rehabilitation of PAL beneficial to all parties involved," he said.

Not least of these are the 8,000 staff, whose jobs Mr Estrada has pledged to keep. While some analysts say this conflicted with would-be buyers' plans for greater efficiency, Cathay Pacific says this was not a crucial issue, given that the need for staff cuts had been signalled before it entered into talks.

Mr Chen said Cathay Pacific remained open to "future co-operation in other areas of mutual benefit."

His comments were welcomed by PAL.

Joseph Estrada: called for meeting with Cathay Pacific and Lucio Tan, PAL controlling shareholder AP

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Marubeni speeds up disposals as trading conditions worsen

By Michiyo Nakamoto in Tokyo

Marubeni, one of Japan's leading trading companies, is stepping up moves to reduce its group assets in an attempt to improve its balance sheet.

Marubeni said it had decided to bring forward its plans because of the deteriorating business environment.

Initially, the company had planned to reduce assets by Y500bn ($4.1bn) over three years. However, it is now planning to reduce assets by Y500bn this financial year and a further Y500bn over the next two business years.

The group had assets of Y7,389bn at the end of September against interest-bearing debt of Y5,100bn.

Marubeni plans to reduce assets by not renewing deposits at financial institutions, by selling financial products it holds, such as corporate bonds with low interest rates, and by reducing inventories.

The move was dismissed by analysts as defensive. "This is not real restructuring," said Kota Nakako, at Warburg Dillon Read in Tokyo. The company had not yet faced up to the need to deal with unprofitable businesses, he said.

The move seemed to have been prompted by a need to reduce financial assets providing low yields as a result of the increasing interest costs facing Marubeni, Mr Nakako added.

Trading companies used to borrow funds at low cost and invest them in low-risk financial products such as corporate bonds, to make a profit on the spread. However, as fund-raising costs have risen, this has become unprofitable.

Separately, the company yesterday indicated it was prepared to provide Fuji Bank, a member of the same Fuyo group of companies, with about Y10bn to boost its capital base.

Fuji Bank has said it was hoping to increase its capital by about Y200bn, but has not made an official request to Marubeni.

Marubeni said it expected its support could be about 5 per cent of the total Fuji Bank aims to raise.

Marubeni's own financial position remains weak. It has a net debt-to-equity ratio of more than 900 per cent and will report a net loss due to securities losses amounting to Y68bn in the first half. A quarter of this is attributed to its holding of Fuji Bank shares.

Tokio Marine eyes securities tie-up

By Naoko Nakamae in Tokyo

Tokio Marine and Fire Insurance, Japan's largest property and casualty insurer, is holding discussions with Charles Schwab, the US discount broker, to form a joint brokerage venture, say sources close to the Japanese company.

If successful, it would be the first time a non-life insurer entered the securities business in Japan.

Tokio Marine, which is affiliated to the Mitsubishi Group, yesterday said it was considering several options in response to Japan's Big Bang financial deregulation. It would not comment on the talks with Charles Schwab.

Although the entry of foreign insurers into the property and casualty insurance market is expected to increase competition in Tokio Marine's core businesses, analysts questioned the reasoning behind a link-up.

David Threadgold, insurance analyst at ING Baring Securities in Tokyo, said discount brokers marketed their products directly and would not need Tokio Marine's network of agencies across Japan.

"A Charles Schwab link-up would be more with the Mitsubishi Group [which includes financial institutions such as Bank of Tokyo-Mitsubishi] rather than with Tokio Marine," said Hideyasu Ban, insurance analyst at Morgan Stanley Dean Witter in Tokyo. "Charles Schwab would be able to access a large client base and the Mitsubishi group would be able to diversify its business range into areas such as online trading."

NEWS DIGEST

JAPAN

Nikko Securities put under review by S&P

Standard & Poor's yesterday placed the ratings of Japan's Nikko Securities under review, with negative implications. The ratings agency said Nikko's business was likely to "remain under intense pressure and could deteriorate further in the medium term". S&P also cited increasing concerns about how beneficial Nikko's alliance with Citigroup might be. The US company, combining Citicorp and Travelers, is taking a 25 per cent stake in Nikko, which is putting its businesses outside Japan into a joint venture with Salomon Smith Barney, Citigroup's investment banking subsidiary. **Clay Harris**

VEHICLES

Astra ahead in third quarter

Astra International, the Indonesian car and motorcycle maker, yesterday credited non-core businesses for a 40 per cent rise in third-quarter operating profits, but conceded that much of the increase was a one-off gain on cheap inventory.

Nine-month figures showed a net loss of Rp488bn ($40m), compared to a profit of Rp326.9bn last time. In the first half, net losses were Rp7,360bn, mostly due to foreign exchange losses on $2bn in debt, but a new regulation issued in September allowed Astra to defer Rp5,300bn in such losses.

Astra said that a strong rise in revenues from businesses other than its core automotive division, such as consumer goods, electronics and timber products, had helped bolster revenues, leaving them down 22 per cent to Rp8,510.9bn.

The group held down the cost of revenues, despite 80 per cent annual inflation, leaving gross profits on non-financial businesses up nearly 11 per cent to Rp2,630.4bn. Astra has cut costs, including staff, but it conceded its margins were flattered by use of cheap imported inventory, bought before the rupiah crashed last year.
Sander Thoenes, Jakarta

SOUTH KOREA

Samsung mulls car unit swap

Samsung, the South Korean conglomerate, is discussing swapping its car business for the consumer electronics operations of Daewoo, local media reported yesterday, quoting a senior presidential aide. The deal would represent a renewed focus on core businesses for both groups. Samsung is Korea's biggest electronics company, while Daewoo is the nation's second largest carmaker. Samsung Motors and Daewoo Electronics are similiar in size in terms of assets and debts. Neither Samsung nor Daewoo was available for comment.

Samsung has been criticised by analysts for expanding into car production this year despite its lack of experience in the sector. Its exit from the car industry would leave Hyundai and Daewoo as Korea's only carmakers. Daewoo has been the subject of recent speculation about its financial health, and its electronics unit is considered the weakest of its three main businesses, which include cars and shipbuilding. **John Burton, Seoul**

COSMETICS

Kao sells remaining IT assets

Kao, the Japanese cosmetics and toiletries group, yesterday concluded the restructuring of its information technology division by selling most of its remaining assets to Zomax Optical Media, a US compact disc maker, for about $60m. Kao would not give details of the operation's sales and profits, but said the businesses, in the US, Canada, Ireland and Germany, represented the core of its IT operations, which had generated sales of Y40bn last year.

The deal ends Kao's withdrawal from information technology, although the division still has some land and buildings in the US.

Yesterday's announcement was made after the market had closed. The shares ended unchanged at Y2,370.
Paul Abrahams, Tokyo

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Reviewed Prices for Trading on 03.12.98 — Final Prices for Trading on 05.11.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	17.42	23.74	24.10	0.85

BUILDING MATERIALS ANALYSTS BELIEVE JOHN MANSFIELD IS UNLIKELY TO COME BACK WITH A HIGHER OFFER

Marley agrees $603m bid from Etex

By Jonathan Ford

Marley, the underperforming building materials group, yesterday surrendered its independence by recommending a £365m ($603m) cash offer from Etex, a private Belgian group, days after a hostile bid from John Mansfield, a small lossmaking timber company.

David Trapnell, chief executive of Marley, said the group had been in talks with Etex for more than a month prior to Mansfield's £270m all-share bid last week and had brought forward the deal after its unwelcome intervention.

He claimed Etex's offer was preferable "in every sense" to Mansfield's, which would have involved a subsequent break-up of Marley.

"The combination of Etex and Marley will create a powerful building products group across the UK and Europe. We are highly complementary in terms of products and geography," he said.

Etex, which has interests in flooring, cladding and floor coverings, is offering 125p in cash for each Marley share, a premium of 18 per cent to Tuesday's closing price of 105½p.

This equates to an exit multiple of 10.8 times 1998 earnings and a forward sales multiple of 0.7 times. Analysts said both these figures were low for the building materials sector, but this reflected Marley's poor stock market performance.

After announcing the bid, Etex instructed its advisers, Dresdner Kleinwort Benson, to buy up to 29.9 per cent of Marley's shares in the market. By the close of business, it had purchased 20 per cent.

Analysts immediately said Mansfield, the bidding vehicle for Stuart Wallis, the former chief executive of Fisons, was unlikely to come back with a higher offer. Mansfield, which put out its offer document yesterday, said it was considering its position.

Philips & Drew, which accepted Mansfield's offer and offered to underwrite its costs up to £1.5m, expressed satisfaction with the outcome. P&D estimated that its 14.9 per cent stake in Marley had increased in value by £24.5m, even after paying the costs, since Mansfield made its bid.

However, the fund manager insisted its policy was not to induce bids for underperforming companies in which it held shares. "You could say Marley was something of a one-off," said Hugh Sergeant at P&D.

Analysts said the bid would be welcomed by Marley shareholders given its underperformance. "The company has been a sitting duck, mainly because the management team has little credibility with investors," said Andrew Bell at HSBC.

MEPC gloomy on property outlook

By Norma Cohen

MEPC, the UK's third largest property company, yesterday delivered an unusually gloomy forecast for the property market in the year ahead, saying that both rents and capital values could fall victim to a general economic slowdown.

In a statement accompanying MEPC's year-end results, chief executive, James Tuckey, said: "The expected slowdown in the UK economy next year will have an adverse effect on occupier demand. There is, as yet, no evidence to suggest that the recent rise in rental values will now go into reverse, but this remains a possibility until the economic outlook becomes clearer."

He added that a combination of tougher lending terms and investors' uncertainty about future property values has already reduced the number of available property buyers. "On the investment front there is clear evidence of a slowdown in the number of transactions as buyers either experience difficulty in arranging finance or decide to sit tight in the expectation of falling values."

Mr Tuckey's assessment of the outlook for property contrasts with statements from other property companies in recent weeks, which have acknowledged the tougher UK economic climate while disclaiming any clear signs that earnings or asset growth will be affected.

However, investors in the sector have signalled that they expect asset values and rents to fall. While property shares traded at an average 27 per cent premium to net asset value at the beginning of 1998, they are currently trading at a discount of about 20 per cent. In the past few months analysts have been cutting forecasts for growth in profits and asset values.

MEPC also reported pretax profits of £206m ($340m), against £84m, for the year to September 30. However, the results were flattered by a £52m gain on the sale of investment properties while there were £9.5m in restructuring charges and a £73m charge relating to interest rate terminations last time.

Delays to drug programme leave Cortecs in isolation

Virginia Marsh analyses the problems facing the biotechnology concern

With investors still reeling from the British Biotech affair, it was not news that anyone wanted to hear. When Cortecs, another quoted UK biotechnology company, admitted on Tuesday that two of its three main drug developments were not as advanced as it had previously suggested, the fear was that the sector, after showing signs of recovery, would again be steamrollered.

But apart from the predictable collapse in Cortecs shares – at yesterday's price of 15p the company is now valued at £24m ($40m), compared with more than £600m in 1996 – the sector has held up.

This is in large part because British Biotech, one of the most highly rated companies in the sector, was seen as a bellwether for other UK biotech stocks while Cortecs was just one of the crowd.

"Cortecs was never more than a middle-ranking biotechnology company at best. It was never a favourite that attracted big institutions in the way that British Biotech did," said Karl Keegan, at Dresdner Kleinwort Benson.

He added that valuations in the UK sector were far lower, and more in line with those of US biotech stocks than they were when problems at British Biotech began to emerge. Analysts and investors had already become more discriminating.

Even before Tuesday's statement, many analysts felt Cortecs was prone to making optimistic statements. The unease was deepened in the summer by the resignation of Glen Travers, founder and chairman, and a subsequent row over his pay. As a result, shares in Cortecs had already fallen from 195½p in February to 26½p by the end of last week. Yesterday they rose 3½p, after falling 76 per cent on Tuesday.

While the sector may be able to shake off this latest setback, the outlook appears bleak for Cortecs. Unlike British Biotech, which had a fat pile of cash to cushion it through its crisis, Cortecs is rapidly burning up its slim resources.

In addition, the delays it announced to its Macritonin osteoporosis treatment and to Pseudostat, for cystic fibrosis and bronchitis, will involve extra cost as the lossmaking company conducts further tests.

Some analysts even wonder whether it will remain independent, given the hard time that biotech companies with lesser problems have faced in recent weeks.

"One of the most alarming things is that the cash burn has not fallen in the way that the former management promised," says Robin Gilbert, of WestLB Panmure.

Cortecs says it has cash of about £16m, enough to last a year. The new team, headed by Lord Patten, the former minister who became chairman in June, promises cost cuts and says it is in talks with "potential investors".

It is appointing external consultants to review the company's programmes in the hope of rebuilding confidence and will look into the circumstances under which Cortecs continued to give encouraging signals about its programmes despite inklings within the company that there were problems.

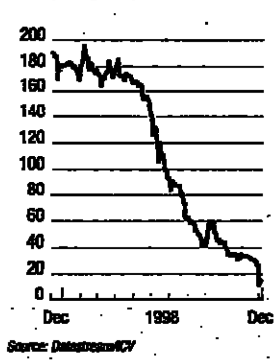
Phil Gould – the former Glaxo Wellcome executive who joined in January and this week replaced Michael Flynn as acting chief executive – said he began to raise concerns with Mr Flynn this year after conducting an internal review.

When it became obvious that nothing was being done, he felt obliged to inform the board, through Lord Patten on November 23. Lord Patten says he first heard of the problems from Mr Gould.

Analysts are divided over the potential of Macrulin, Cortecs' oral insulin product and the only one of its lead programmes still on track. Some say it is a tricky product to develop, requiring painstaking science and testing, and has been overtaken by other drug delivery techniques. Others see it as a potential blockbuster and say the collapse in the company's shares is overdone given that data from a Phase II efficacy and safety study is due in just five months.

Cortecs

Share price (pence)



Source: Datastream/ICV

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alba	6 mths to Sept 30	117.9	(110.5)	3.76	(3.22)	5.81	(4.76)	1.6	Apr 26	1.4	-	6.5
Birkby	6 mths to Sept 30	22.5	(23.6)	5.98	(4.97)	9.1	(7.6)	2.6	Apr 6	2.5	-	9
Blick	Yr to Sept 30	76.8	(75.1)	12♠	(12.9)	26.1	(29.08)	9.5	Apr 7	9.5	14.5	14
Compco	6 mths to Sept 25	20.6	(9.98)	4.87	(2.56)	10.32†	(6.78)	1.25	Jan 15	1	-	4.5
Eve	6 mths to Sept 30	46.7	(44)	1.95♠	(1.54)	12.9	(10.4)	2.67	Apr 8	2.3	-	7
Greene King	24 wks to Oct 17	134.5	(132.1)	20.7♥	(20.7♥)	26	(26.3)	5.85	Feb 1	5.3	-	18.35
Hampson Inds	6 mths to Sept 30	72.1	(68.2)	4.43♥	(3.82)	2.57†	(2.15)	0.7	Feb 22	0.65	-	2.65
Hidden Hearing	6 mths to Sept 30	21.9	(15.8)	1.34	(1.29)	4.61	(4.91)	1.03	Jan 7	-	-	-
Highams Systems Φ	6 mths to Sept 30	16.2	(11.3)	0.782	(0.647)	3.05	(2.45)	-	—	-	-	1
Hornby	6 mths to Oct 3	9.44	(11.1)	0.425	(0.973)	3.49	(8.02)	2	Jan 29	2	-	7
M&G	Yr to Sept 30	164	(152.2)	76.1	(67.4)	70.9	(61.9)	27.5	Jan 14	24	46	40
Mentmore Abbey	6 mths to Oct 31	16	(15.5)	3.3	(2.31)	2.98	(2.02)	0.374	Apr 7	0.34	-	1.05
MEPC	Yr to Sept 30	343.1□	(390.4□)	206♥	(84.1♥)	30.2#	(13.2)	8‡	Feb 3	14.75‡	12‡	20‡‡
OEM	Yr to June 30	2.8	(4.01)	0.861	(1.22)	11.8	(18.4)	nil	-	nil	nil	nil
Readicut Intl	6 mths to Sept 30	74.9	(143.5)	3.15L♠	(4.53)	1.87L	(1.49)	0.63‡	Feb 15	0.63	-	2.58
RPC	6 mths to Sept 30	133.3	(120)	8.99	(7.57)	8	(6.5)	1.65	Jan 15	1.5	-	4.65
Stirling	6 mths to Sept 30	53	(50.9)	1.96	(2)	1.56	(1.6)	0.68	Jan 22	0.68	-	2.5
United Drug ♣	Yr to Sept 30	450	(311)	8.72♠	(7.32)	27.59†	(23.14)	7.7	Feb 11	6.9	11	9.9
Waverley Mining	Yr to June 30	-	(4.17)	0.563♠	(23.4L♠)	0.07	(50.7L)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
GF Extra Income	Yr to Oct 31	147.72	(139.54)	1.83	(1.86)	9.15	(9.3)	3.4‡‡	Jan 4	3	8.8‡‡	8.25

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. □Gross rental income. #On reduced capital. ‡Foreign income dividend. ‡‡Includes FID element. ♣Irish currency.

Arcadia warns on Christmas trading

By Maggie Urry

A profits warning from Arcadia, the fashion retailer, underlined recent poor trading news from other retailers and increased concerns that the sector is facing a gloomy Christmas.

Worries prompted by a slow start to the vital Christmas shopping season were deepened by Hornby, the toy maker, which warned its full-year profits would be hit by late ordering by retailers in the run-up to the holiday period.

Arcadia shares fell 75½p, or 26 per cent, to 212½p on the warning that sales per square foot had fallen 1.8 per cent in the past 13 weeks. The group said "there has been a sharp downturn in high street spending and exceptionally high levels of markdown-driven competitor activity".

John Hoerner, chief executive, said that while a sudden recovery in sales might happen, "as the pattern of trade becomes more clearly established, it is much less likely for that to occur".

The warning came barely two hours after Warburg Dillon Read, the stockbroker, cut its profit forecast for the group from £90m to £70m pre-tax, compared with £81.1m in the latest financial year to August 29.

After the company's statement, other brokers cut forecasts, some as low as to £60m. Arcadia, the renamed Burton Group, includes chains such as Burton men's wear, Top Shop and Top Man, Dorothy Perkins, Principles, Racing Green and Hawkshead.

The run-up to Christmas is a vital period for retailers as sales can run at two or three times normal levels, and traditionally are made at full price. The trading period can account for more than 50 per cent of a non-food retailer's annual profits.

Since Sir Richard Greenbury, chairman of Marks and Spencer, spoke of "a bloodbath" in clothing a month ago, the sector has been in turmoil. Yesterday Marks and Spencer shares dropped 4 per cent to 400p, while Great Universal Stores fell 8 per cent to 574p, Sears and Next each lost 7 per cent to 196½p and 444p respectively, and Debenhams, which was demerged from Arcadia in January, fell 6 per cent to 360p.

Arcadia had been more optimistic than other retailers. When it reported its annual results in late October, it said that while trading conditions were "challenging", it was outperforming other retailers.

At that time, after seven weeks trading in the current year, it said sales per square foot were "ahead" of the comparable period.

COMMENT

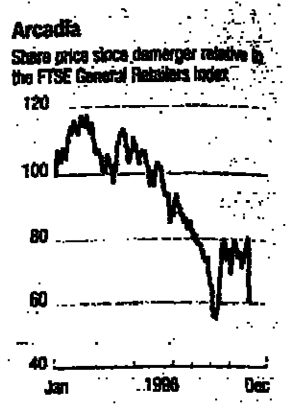
Arcadia

It was not a question of if but when Arcadia would issue a profits warning. Storehouse did it nearly two weeks ago, saying the clothing market had shrunk by 4-5 per cent in the previous month. Arcadia is now left looking inept because it appears to have been bounced into the warning by Warburg's forecast. Leaving poor execution aside, the alarming upshot of the statement is that pre-tax profit forecasts for 1998-99 have been cut to as little as £60m. Six weeks ago, when Arcadia said it was doing better than its peers, figures of £80m-£90m seemed in order. With discounting rife in the fashion business, margins are being shredded.

Chains of small stores, such as Arcadia's, suffer disproportionately because of their higher fixed costs. This means the management has little room for manoeuvre. So restoring credibility is only part of the challenge in an over-supplied UK retail sector.

Arcadia

Share price since demerger relative to the FTSE General Retailers Index



Source: Datastream/ICV

Marley

It may surprise followers of Marley's sorry recent history to learn that it still has sufficient strategic value to attract two bidders within a week, let alone that anyone would offer 46 per cent more than the pre-bid share price. A year after Redland's sale to Lafarge of France, the UK's other main roof tile maker now seems certain to fall to Etex of Belgium. John Mansfield says shareholders could have found more value by hanging on as it refocused Marley, but investors will probably choose Etex's cash over the diminutive rival's audacious paper bid.

Others in the unloved sector, such as Caradon, Rugby and Hepworth, should take note. Like Marley, which strayed into making plastic garden products, there are too many mini-conglomerates waiting to be broken up. Too often, their strong domestic market shares look unimpressive from a Europe-wide perspective. Caradon is talking of selling its doors and windows assets, and Hepworth is murmuring about "reshaping" its portfolio.

If the companies cannot restructure fast enough themselves, investors should force the pace. PDFM, which put the company in play by backing Mansfield's bid, has the consolation of having made £24.5m this week. PDFM is unlikely to make a habit of such tactics, but it has sent a clear signal that shareholders' patience is limited.

MONTHLY AVERAGES OF STOCK INDICES

	November	October	September	August
FTSE Actuaries Indices				
FTSE 100	5595.6	5063.8	5171.9	†5555.8
FTSE 250	4885.0	4516.2	4657.9	5173.4
FTSE 350	2661.4	2417.2	2472.8	2672
FTSE Non-Financial	2630.55	2413.68	2480.53	2658.6
FTSE Financial Group	4877.76	4319.56	4410.37	4914.36
FTSE All-Share	2571.19	2337.61	2397.79	2597.86
FTSE Eurotop 100	2565.89	2266.27	2419.84	2717.92
FTSE Eurotop 300	1110.10	987.24	1051.7	1181.01
FT/S&P-A World Index	288.06	260.34	258.09	273.33
FTSE Indices				
FT Govt Securities	111.99	111.32	110.1	106.55
FT Fixed Interest	151.17	149.65	149.68	145.23
FT 30	3383.8	3043.2	3199.9	3556.2
FTSE Gold Mines	1109.02	1137.13	957.91	845.85
SEAQ Bargains (5.00pm)	63,885	63,039	61,844	58,484

	Highest close Nov	Lowest close Nov
FTSE 100	5848.4 23th	5432.3 10th
FTSE 250	4971.4 4th	4780.9 18th
FTSE 350	2763.6 27th	2595.8 10th
FTSE All-Share	2685.8 27th	2510.78 10th
FT 30	3531.1 23th	3289.1 12th

† Corrected figure for August.

NEWS DIGEST

FUND MANAGEMENT

M&G shows the first fruits of recovery

The first fruits of recovery began to show through at M&G last year, helping the retail fund management group lift pre-tax profits by 13 per cent to £76.1m ($125.6m). The performance in the year to September 30 came despite a £111m outflow from the group's unit and investment trusts and a drop in funds under management from £18.1bn to £16.8bn, caused by falling share prices and redemptions of unit trusts.

The outflow, however, was down sharply on the previous year's £220m. Moreover, the current year has started well, with positive net sales of unit trusts and a rise in funds under management to £18.4bn by November 26.

Michael McLintock, chief executive, said the group was recovering after problems earlier in the decade when it had been overly "patrician" and investment performance had suffered from too narrow a focus. It was communicating better with independent financial advisers and had a broader product offering, he said. A particular success was the recent launch of a high-yielding corporate bond fund which has taken £70m since its October launch. **Christopher Brown-Humes**

INSURANCE

Risk transfer move for CLM

CLM Insurance Fund, one of the largest corporate investors at Lloyd's, has moved into the growing alternative risk transfer market where insurance risks are securitised in the form of bonds. This could pave the way for CLM to issue bonds of its own using Lloyd's underwriters to rate risks, but at lower cost than through Lloyd's.

CLM has created a wholly-owned subsidiary, Alternative Risk Transfer, which has invested £3m ($5m) in three catastrophe bonds, offering cover against hurricanes and earthquakes. CLM said the securities, which had been issued by large reinsurers, had been carefully chosen to give it a wide spread of risk.

Although ART is a non-Lloyd's entity, the investments have been rated by underwriters on two syndicates wholly owned by CLM, Peter Ettridge on syndicate 575 and Graham Potter on syndicate 1415.

ART's initial £3m securities investment represents about 2 per cent of CLM's portfolio of £128m. **Andrew Bolger**

SUPPORT SERVICES

Mentmore deal with Iron Mountain

Mentmore Abbey, the storage group, is selling 50.1 per cent of British Data Management, its corporate archiving business, to Iron Mountain of the US for £27.3m ($45m) cash to create a joint base for expansion into continental Europe. The deal, which values BDM at £66m, will give Iron Mountain, the largest corporate archiving company in the US, a better foothold in the growing UK market. In return Mentmore Abbey will gain access to the US company's advanced computer systems and operational expertise. The joint venture company will absorb Arcus – Iron Mountain's existing UK business, which is valued at £1.5m – and assume £10m debt.

Analysts said Iron Mountain had paid a full price for its stake in BDM, which made operating profits of £3.57m on turnover of £17m for the year to April 30.

The UK company also announced pre-tax profits up 43 per cent at £3.3m for the six months to October 31, on turnover of £16m (£15.5m). Its shares rose 17½p to 108½p. **Thorold Barker**

BUILDING MATERIALS

Another US buy for Hanson

Hanson, the aggregates group, has made its second US acquisition this week, buying Nelson and Sloan, a Californian cement and aggregates company, for $37.3m. The purchase brings the total Hanson has spent in the US this week to $62.3m. It has bought five US companies this year, for $304.9m, through its Cornerstone subsidiary.

Justin Read, group finance director, said the run of purchases was far from over. "There is an acquisition pipeline," he said. "As we do more, we are shown more companies." **Lucy Smy**

LEGAL NOTICES

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MANAGEMENT MODEL COMPANIES

A flight in the corporate simulator

Changing strategy can be hazardous. **Tony Jackson** looks at how managers can assess their plans to avoid upsetting all-important stakeholders

Creating shareholder value, some might think, is in theory pretty simple. All you need do is slash your workforce, shove up your prices and squeeze your suppliers. Hey presto – up go your earnings and share price, and the shareholders are happy.

Real life, of course, is not like that. Things bite back, and so do people. Maltreat your customers and suppliers, and they will damage you in return. Everyone, in the jargon, is a stakeholder: and in the long run, no stakeholder will stay in the game unless they get more out of it than they put in.

Every worthwhile chief executive knows that, and instinctively adjusts the business accordingly: instinctively, because the interaction of the variables seems too complex to calculate.

But must this be so? In the age of the computer, is it not possible to build models that will predict how the players will react?

Yes, some would say. The answer lies in a technique known as dynamic simulation.

In the world of manufacturing, this has been employed at least since the 1960s. If you are running a cement plant, you can build a model of how it functions. You can then feed in variations in ingredients, temperature and so forth.

Each variation creates feedbacks elsewhere in the process. If you run the model repeatedly, allowing those feedbacks to take effect, you can quickly establish how the plant's efficiency will be affected over days or weeks.

One European utility, which prefers not to be named, claims to have applied this principle successfully to management. For example, says the executive in charge of the programme, take the question of whether to impose a wage freeze.

The cash savings of this can be quickly calculated, but not the costs. At issue is the level of service which the utility can achieve, which depends heavily on staff morale.

In response to a wage freeze, experienced people will leave and have to be replaced by the inexperienced. Those who remain will perform less well. To an extent, this will damage revenues. But how much?

Granted, the executive says, you cannot measure the impact with any precision. But by asking the experts in your organisation – in this case, the human resources director – you can form a rough idea.

Begin with the assumption that a wage freeze will increase staff turnover from 5 per cent to 6 per cent. Run that through the model, and see whether the cost outweighs the savings. If the answer is no, increase the assumption to the highest level you think is feasible – say, 10 per cent. If the answer is still no, you can be pretty sure you have a robust decision.

The important point, the executive says, is that this attempts to measure soft data as well as hard.

"If you only model the things you're sure about," he says, "you end up describing only a very small part of your business. That tends to dominate people's thinking, and the softer things get a very low weighting in your decisions."

The point is reinforced by Professor John Sterman, head of the systems dynamics group at the Sloan School of Management. "There is nothing wrong with making assumptions", he says. "The question is whether they are reasonable, relative to your purpose.

"If morale goes down, and the best people leave first, that is a reality. But you don't have numerical data for it. If, as a result, you don't put it into your model, you're assuming zero impact. And that is the one effect we know is wrong."

At this point, the sceptic might object that an example drawn from a utility is of limited relevance.

The reason why dynamic simulation works in a cement factory or chemical plant is that there are physical constants involved. If a reaction happens once, the odds are it always will.

Similarly, there are more constants to a utility than the average business. The phones do or do not work: gas leaks get fixed promptly, or not. All the while, the essential service remains the same.

But at the other end of the spectrum, take an internet company. There, everything is variable, and the future is wholly unclear. Modelling seems out of the question.

On the other hand, according to one specialist in the field, the London-based management consultancy PA Consulting, applications are not as restricted as all that.

For instance, in the early 1990s PA performed dynamic simulations for Mastercard, which ended up demonstrating that a large amount of shareholder value would be created by co-branding: that is, the creation of an Exxon Mastercard, and so forth.

In other words, shareholders stood to gain by consulting the interests of Exxon as a stakeholder. PA suggests another example, which broadens the concept of stakeholders to include competitors.

In 1991, it claims, one of the big UK brewers adopted an aggressive strategy designed to take its market share from 23 per cent to 30 per cent by 2000. The result, its advisers told it, would be an increase in shareholder value of £600m.

Unfortunately, the other brewers reacted in kind. The result was a five-year price war that reduced the value of all of them. The brewer, PA argues, had failed to take account of the likely feedback.

This illustrates a general point: that to increase shareholder value on a consistent basis, it is not a good idea to grab value from other stakeholders.

Not only does this create negative feedback, but it is also a finite strategy, since the whole cake is not expanding, and may even shrink.

For a variety of reasons, say the enthusiasts, the use of dynamic simulation will increase. "This whole field," says Prof Sterman, "is exploding."

Granted, he says, some companies have tried to use it and failed. But however complex the variables, you still have to try to measure their effect.

The real question, he says, is whether you regard the reaction of other stakeholders as exogenous: that is, as external to your business.

"If you assume that competitive behaviour or price movements are exogenous," he says, "you are in deep trouble. By assuming things are exogenous, you exclude them from your model."

Prof Sterman takes the argument further, into the basic question of how companies are structured. There is a parallel, he argues, with aircraft design.

"You cannot imagine a company developing a new aircraft today without simulation. What's at stake when people manage a business is at least as big as when they go into an aircraft, but you don't see anything like the same effort going into it."

In future, he says, people will design organisational structures as they do aircraft. At present, managers are rather like pilots, struggling to keep the plane in the air in rough conditions.

"It will become routine for managers to have an organisation which will perform well in extreme weather and high winds", he says. "More and more, managers will become organisational designers rather than pilots. And the whole nature of management education will change."

'More managers will become organisational designers rather than pilots. The nature of management education will change'

MANAGEMENT EXPATRIATES

New paths to global thinking

The higher cost of foreign postings has led to shorter assignments, writes **Alison Maitland**

There was a time when an ambitious manager would expect to spend years in foreign parts, uprooting their families again and again for the mixed pleasures of an expatriate life.

Today a successful career with an international company is increasingly likely to consist of short-term projects overseas or managing cross-border teams from the home base.

More than 80 per cent of organisations now use short-term assignments, typically of three months to a year, according to a survey* to be published tomorrow by the UK's Roffey Park Management Institute.

This compares with 71 per cent offering expatriate postings and about 40 per cent where managers run teams across several countries.

One reason for the change is the high cost of foreign postings. British Petroleum, Motorola and Unilever, for example, are trimming their expatriate presence in China as business slows in Asia and traditional home markets.

There are also longer-term motives linked to a desire to be truly international, says Geoff Rogers, head of human resources for global markets at Standard Chartered, the London-based international bank.

"The heart of our business is Asia. The Chinese business community is central to Standard Chartered. We are probably better off having an Asian manager working with local Asian businessmen, being closer to the customer, than an expatriate."

Ninety per cent of the bank's 25,000 employees work outside its UK headquarters, and Singapore and Hong Kong rank with London in importance.

The number of expatriate managers employed by Standard Chartered has nearly halved in the past decade from 800 to 420, a trend that has accelerated in the past year.

"The expatriate is now the last tool we want to use to run our global business," says Mr Rogers, who will speak at a Roffey Park seminar on international leadership tomorrow. We should regard them as temporary workers, for example, to overcome a critical skills shortage or to develop other managers, until we can find someone locally."

The bank's aim is to be "transnational", fulfilling customers' needs for seamless services operating across borders. Fewer than half its expatriates are British or American, compared with 95 per cent 10 years ago.

The increasing use of local managers is backed up by the survey's findings, in which 42 per cent of respondents say their organisations are pursuing this model in place of expatriates.

Western managers, often with working spouses, are increasingly reluctant to accept posts that involve uprooting their families, while the importance of the extended family in Asian countries leads to resistance there too to leaving home for long periods.

Standard Chartered must find other ways to instill global thinking in its managers. It does this from graduate trainee level upwards, with up to 21 nationalities represented in the annual intake.

Trainees recruited in Singapore are sent to London, and vice versa, for a couple of months to learn the business and to hone their interpersonal skills.

Managers recruited into cross-border roles at a more senior level learn about global thinking and corporate culture as part of their induction. Selected groups attend the international management programme at Insead.

Despite the rapid pace of globalisation, only 37 per cent of organisations with overseas operations offer managers international training of this kind, according to the survey.

More than half the respondents say they would have welcomed extensive training in different cultural values – seen as the most common challenge facing international managers.

Another problem highlighted by the survey is companies' poor use of international experience when managers return.

The car division of Volvo of Sweden is trying to overcome this through its training programme for future top managers.

Each year, 15 fast-track managers from at least six countries are sent on five-month placements in other centres, meeting regularly to pool their experiences. At the end of their training, they must make a presentation to top management.

**Findings from the survey, of 350 European managers, are available from Caroline Glynn, tel UK (0)1293 851644*

TECHNOLOGY WORTH WATCHING

Golden route to using nanoscale materials

Nanotechnology – the manipulation of matter on a near-atomic scale – holds out the prospect of creating valuable materials, devices and manufacturing processes. But the ability to fabricate ordered structures on a nanometre scale is a huge technical challenge, which goes well beyond the current limits of lithographic techniques.

A step towards this goal has been announced by researchers at the University of Liverpool in the UK. In today's Nature, the scientific journal, they describe gold nanocrystals of two sizes that spontaneously assemble themselves into complex two-dimensional arrays.

This suggests it may be possible to manipulate the composition and structure of nanoscale materials by simply adjusting the size ratios and relative proportions of their constituents.

University of Liverpool: UK, tel (0)1517945395; e-mail kiely@liv.ac.uk

Change of direction for satellites

Normally, satellites must move the entire mechanism beneath an antenna to change direction. Researchers in the US are experimenting with an adjustable antenna that would be able to make fine movements on its own. The antenna could be adjusted by applying a voltage to a piezoceramic material on the reflector. The ceramic would expand or contract, changing the shape and properties of the antenna.

The advantage of an adjustable antenna is that it could change the shape of its reflectors while in orbit to improve signal quality. It might also be possible to replace three or four traditional antennae on a satellite with one or two multifunctional antennae.

Ohio State University: US, tel 6142928486; http://www.acs.ohio-state.edu/units/

Cleaning bug

A genetically engineered bacterium may provide an answer to the problem of cleaning up land near explosives and polyurethane factories. These are often contaminated with DNT, a possible carcinogen produced by the breakdown of TNT.

The problem with cleaning up DNT is that it requires oxygen, which is often scarce when the contamination extends deep into the soil. Researchers at the Illinois Institute of Technology have got round this problem by splicing a gene for haemoglobin into bacteria called Burkholderia, which consume DNT.

Illinois Institute of Technology: US, http://www.iit.edu/

Airline fuel saver

Krupp VDM, part of the German industrial conglomerate, has developed a high-temperature alloy that could improve the fuel efficiency of aircraft engines. It estimates that a modern passenger aircraft using the material in its combustion chamber would cut its fuel consumption by about 1 per cent.

The material, called Nicrotan, can withstand temperatures of up to 900°C, at least 60°C higher than comparable materials. The combination of strength and temperature resistance was achieved by adding 8 per cent of tantalum to the alloy, which also contains chromium, aluminium and yttrium.

The increased temperature resistance of the alloy improves the engine's efficiency by reducing its need for cooling.

Krupp: Germany, tel 2392 550; http://www.krupp.com

Vanessa Houlder

INTERVIEW KRISH PRABHU, ALCATEL USA PRESIDENT

Making skip-level connections

After the French group's share took a knock he took to the lunch table to help motivate the US-based workforce, writes **David Owen**

"Skip-level meetings" might sound like the sort of get-together best confined to the building site. In fact, they are an important weapon in the management armoury of Krish Prabhu, recently appointed president of Alcatel USA, the French telecoms equipment group's US telecoms business.

"You skip several layers of management and you go to talk directly to the people," he explains. "Every opportunity I get I have lunch with 10-15 people, mainly engineers or people at that level ... I must have met 300 to 400 people in such meetings to date."

You might think that Mr Prabhu, whose principal office is in Dallas, would need all the skip-level meetings he could muster, not to mention the motivational skills of Billy Graham, to inspire his mainly US-based workforce. Many employees joined Alcatel as a result of its takeover of DSC Communications, the US telecoms equipment company, in September in a stock-for-stock transaction.

Just 10 days after completing this deal, Alcatel's shares lost more than 38 per cent of their value in a single day following a profit warning.

Shock waves were sent through the French financial and political establishments. But it must have been particularly sobering for the 1,500 or so former DSC employees who have become owners of Alcatel options.

"Sure, they are disappointed, much like I'm disappointed," Mr Prabhu, 43, says in a meeting at Alcatel's Paris headquarters. "I still hold a lot of Alcatel options and a lot of them are in the water right now. So we always talk about that ... And then they say 'Oh yes, you probably lost more money than we did'. But I say 'Listen, I'm here because I enjoy this thing. I'm really excited about the team I have. And I'm really excited about this game we are playing in'.

"Had the stock doubled instead of being closer to 40 or 60 per cent of what it was ... things would have been far easier. At least I wouldn't have to spend time during my lunches on these kind of questions. But people also realise that there was a lot of market volatility. People also lost a lot of money on stocks they held elsewhere."

Although they have perked up recently – closing at FFr740 on Tuesday, against a year's high of FFr1,425 – that autumn tumble was so significant that Alcatel, one of the bluest of French blue chips, last month suffered the indignity of being pinpointed as a potential takeover target in Le Monde, the daily newspaper, along with several other household names.

This appears not to be of undue concern to this University of Pittsburgh and Indian Institute of Technology graduate. He has a leading role to play if the company is to win back the confidence of Anglo-US investors whose support will probably be necessary if its share price is to return to former levels.

"I am of the firm opinion that when the share price is low and the company is fairly big, a takeover attempt is fairly difficult," he says. "For two reasons. One, it has to be hostile – necessarily. And two, the management team is always going to feel ... that the valuation is undervalued."

Addressing the more specific question of whether rivals Lucent and Cisco would want to buy Alcatel, he argues, first, that Lucent "would have a really difficult time, from a technology standpoint, assimilating the two businesses" because there is such significant product overlap. "Lucent," he concludes, "is probably better off buying somebody who has maybe three-quarters of the channels that Alcatel does but less of a product overlap".

As for Cisco, he thinks the two companies are "not a bad model" in terms of complementarity and overlap. "But Cisco is really a company that always buys small companies and buys them for technology ... So I would again be very surprised if Cisco thinks the right thing for them going forward is to come after Alcatel."

Mr Prabhu clearly expects the French group, which has negligible debt following a recent FFr13.7bn capital gain, to keep pursuing acquisitions of its own. "We will continue to look at acquisitions as a means of rapidly catching up in areas that we are weak in," he says. "So these are necessarily technology-based acquisitions."

On Alcatel's position with regard to its main competitors, he argues that one of the French group's strengths, aided by such acquisitions, will be its ability to provide what he calls a "one-stop shop" for customers. "I think our strength really is that we can bring complete solutions that transcend voice and data," he says.

He acknowledges that Lucent can legitimately claim to provide the same thing in the US, while being "fairly weak" in other countries. Cisco, however, "most definitely" cannot – "especially on the voice side".

Alcatel, by contrast, remains, by Mr Prabhu's admission, "somewhat weak" in the US. "In particular on the enterprise side, we are weak in the US."

For all that, the DSC deal has nearly doubled the French group's US presence: the pro forma 1997 US revenue of the two groups was about $3bn with the purchase making the US Alcatel's largest telecoms business, accounting for more than one-fifth of sales. Mr Prabhu adds that he has targeted $5bn revenue for the combined group "in a fairly short time".

Neither DSC nor Alcatel USA alone, he suggests, could have been quite the force they needed to be in a marketplace increasingly dominated by Lucent, Nortel and Cisco. Collectively, however – "if we can identify our strengths and weaknesses and pick the fights we want to fight with these three giants" – the combined group has a good chance of coming out on top over the long term.

In what at first glance is a surprising move, Mr Prabhu has also assumed responsibility for Japan among Alcatel's six-strong telecom executive committee – a development he explains in terms of the shape of Alcatel's and DSC's respective businesses.

"Alcatel has never been significantly placed in Japan," whereas DSC has been "very aggressive" and has a good business with the country's second operators. "So after the DSC acquisition, it made sense for Alcatel USA to have responsibility not just for the US but also for Japan."

Tokyo as well, it seems, may soon know the true meaning of the skip-level meeting.

'Listen, I'm here because I enjoy this thing. I'm really excited about the team I have. And I'm really excited about this game we are playing in'

EURO PRICES

EQUITIES

Heavy Dow hits Europe's mood

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

European stock markets extended their losing run to three sessions as another weak opening on Wall Street weighed on sentiment.

The Dow Jones Industrial Average was more than 100 points down in early trading as Tuesday's late gloomy news from Boeing knocked the market. That prompted an initial rally on European bourses to fizzle out.

The Dow also dragged down the dollar and the weakness of the US currency proved to be bad news for European shares, as usual, particularly in the export sectors.

Rumours that the Bundesbank might make a pre-emptive strike to cut European interest rates were offset by a preliminary forecast of European growth for 1999 from the European Central Bank of 2.5 per cent. The forecast looks rather high to be permitting interest rate cuts.

The FTSE Eurotop 100 index fell 28.94 or 1.1 per cent to 2,354.58, while the broader Eurotop 300 dipped 9.69 to 1,096.61. The FTSE Ebloc 100, comprising stocks in countries which will be part of the single currency zone next month, dropped 12.53 to 911.1.

There was another sharp fall in the shares of French oil group Total as investors reacted unfavourably to the price it agreed to pay for the Belgian company PetroFina on Tuesday. Total shares fell Ecu 4.30 to Ecu 89.77 and the oil sector was one of the day's worst, dropping 3 per cent.

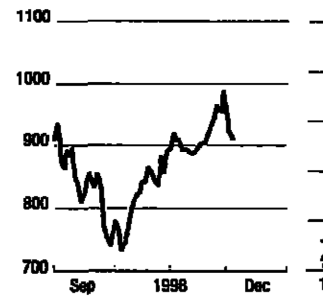
A fall in the traditionally volatile Nycomed Amersham – down Ecu 0.20 at Ecu 5.21 – linked to vague fears it might fall out of the FTSE 100 index meant that the healthcare sector also lost 3 per cent.

The weaker dollar weighed on auto stocks and BMW shares also took a hit from the departure of Rover's chairman, sliding Ecu 32.60 to Ecu 582.64.

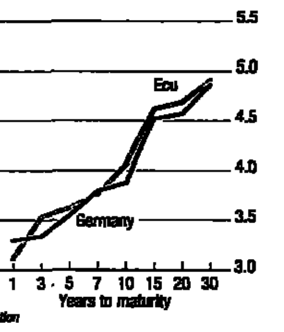
Figures from Salomon Smith Barney show October's rally persuaded European private investors to dip their toes into equities.

The net inflow into European equity mutual funds over the month was $2bn, compared with an outflow of $500m in September. Salomon said that Sweden was the only country with a net outflow in October.

FTSE Ebloc 100
Index



Bond yield curve
Per cent (December 2 1998)



Source: FTSE International, Interactive Data/FT Information

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.365	96.365	-0.005	96.365	96.365	1	9591
Mar	-	96.760	+0.010	-	-	0	6000
Jun	-	96.825	+0.010	-	-	0	2266
Sep	-	96.835	+0.015	-	-	0	1188

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Dec	Jan	Feb	Mar	PUTS Dec	Jan	Feb	Mar
96500	0.005	0.275	0.290	0.310	0.140	0.015	0.030	0.050
96625	0				0.260			

Est. vol total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2570.0	2540.0	-40.0	2570.0	2570.0	25	6818
Mar	2600.0	2556.0	-40.0	2600.0	2578.0	24	1080

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2500 C	2500 P	2525 C	2525 P	2550 C	2550 P	2600 C	2600 P	2650 C	2650 P	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P
Dec	119	45	101	57	86	67	61	93	40	122	25	157	16	198	10	246
Jan	171	95	138	114	113	139	89	164	68	194	51	227	39	264	215	132

Est vol total0. Prev day's open interest total 9,753. Premiums shown are based on settlement prices.

OTHER INDICES

	Dec 2	Dec 1	Nov 30	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3037.19	3071.78	3203.06	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	3017.89	3066.11	3179.09	3658.48	2419.23	3658.48	2419.23
MSCI Europe	(u)	1107.54	1149.25	1315.55	908.59	1315.55	510.78

Source: Extel/part of FT Information. *Subject to revision next day. (u) unavailable.

FTSE *Actuaries Share Indices* European series

Produced in conjunction with the Faculty and Institute of Actuaries

Dec 2 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1096.61	-0.88	-9.69	2.51	24.96	1128.62
FTSE Eurotop 100	2354.58	-1.13	-28.94	2.53	38.81	908.08
FTSE Ebloc 100	911.10	-1.36	-12.53	2.32	14.94	924.71
FTSE EuroMid	1093.45	-0.51	-5.61	3.02	0.88	1131.71
FTSE EuroMid Ebloc	1152.33	-0.49	-5.67	2.58	0.02	1176.19
FTSE EuroMid Ex UK	1146.72	-0.39	-4.48	2.45	0.02	1167.56
FTSE Eurotop 300 Regions						
Eurobloc	1144.84	-1.19	-13.81	2.20	21.56	1169.22
UK	1019.26	-0.51	-5.24	3.00	34.00	1068.80
Europe Ex-Eurobloc	1058.34	-0.53	-5.69	2.83	27.33	1095.21
Europe Ex-UK	1141.34	-1.05	-12.16	2.26	19.91	1162.60
FTSE Eurotop Industry Sectors						
RESOURCES	828.45	-2.81	-23.96	3.44	29.22	866.33
Extractive Industries	751.04	+0.41	+3.07	4.57	14.54	766.90
Oil, Integrated	800.16	-2.95	-24.33	3.39	21.73	819.53
GENERAL INDUSTRIES	1001.69	-1.10	-11.13	2.75	21.29	1022.85
Construction	868.82	-0.75	-6.57	3.18	11.06	878.93
Building Matls & Merchs	852.31	-0.79	-6.76	2.63	8.96	858.67
Chemicals	802.35	-1.30	-10.54	3.02	17.45	816.52
Diversified Industrials	889.97	-1.92	-17.43	2.67	22.61	910.33
Electronic & Elect Equip	902.34	-0.21	-1.91	1.84	5.41	907.26
Engineering	812.81	-0.66	-5.39	4.10	12.32	823.33
Paper, Pckg & Printing	777.08	-1.90	-15.02	3.00	1.21	778.04
CONSUMER GOODS	1128.85	-0.39	-4.44	1.66	18.33	1159.67
Automobiles	852.99	-2.02	-17.59	2.66	10.25	860.90
Alcoholic Beverages	871.52	-0.34	-3.01	3.05	17.63	890.15
Food Producers	909.83	-1.21	-11.18	1.68	11.84	920.53
Household Goods & Texts	967.57	-1.73	-17.04	1.96	8.94	975.83
Healthcare	824.70	-3.04	-25.86	1.41	13.51	837.03
Pharmaceuticals	1012.87	+0.17	+1.70	1.27	5.27	1018.37
Tobacco	1274.26	-1.13	-14.57	4.00	15.86	1291.80
SERVICES	1103.50	-0.80	-8.94	2.14	23.04	1134.31
Distribution	750.50	+0.42	+3.15	2.90	11.37	758.93
Leisure & Hotels	744.63	-0.17	-1.26	3.43	12.27	754.37
Media	931.84	-1.25	-11.80	2.37	10.68	941.59
Retailers, Food	989.22	-1.09	-10.88	2.06	15.00	1004.33
Retailers, General	913.41	-1.83	-17.02	3.41	20.46	932.25
Telecommunications	1040.20	-0.67	-7.07	1.88	13.52	1053.33
Breweries, Pubs & Rests	766.06	+0.26	+1.97	3.47	16.00	779.61
Support Services	900.60	-1.53	-14.02	1.63	9.87	910.15
Transport	926.71	-0.30	-2.77	2.66	18.24	943.80
Information Technology	848.96	+0.67	+5.63	0.43	2.33	850.58
UTILITIES	1418.08	-0.16	-2.29	3.11	60.30	1502.16
Electricity	1085.35	+0.02	+0.16	3.29	30.43	1097.97
Gas Distribution	1171.11	-0.14	-1.64	1.58	93.32	1289.46
Water	1001.73	-1.24	-12.60	5.04	44.83	1046.01
FINANCIALS	1175.08	-0.67	-7.87	2.79	27.58	1206.78
Banks, Retail	806.78	-0.80	-6.51	3.62	13.20	819.67
Insurance	918.40	-0.73	-6.71	1.51	11.79	929.48
Life Insurance	1079.87	+0.07	+0.75	1.80	12.98	1093.89
Other Financial	836.87	+0.28	+2.33	2.31	15.95	850.84
Investment Companies	949.98	-0.29	-2.79	2.72	20.66	967.74
Property	685.82	-0.45	-3.01	3.70	21.26	683.12

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FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
Allied-Dom	7.26	-	7.6	1.9	5.0
Carlsberg A	47.64	+.6	1.7	-	1.0
Carlsberg B	48.31	+1.6	1.4	-	1.0
Diageo	9.03	-	32.3	11.0	3.1
Heineken	42.55	-.4	13.3	2.7	0.7
LVMH	198.29	-3.7	13.8	0.1	2.2
AUTOMOBILES					
BMW	682.64	-32.6	14.8	-	1.5
DaimlerChrys	75.56	-2.4	74.6	0.7	-
Fiat	2.59	-	12.8	16.5	2.4
Peugeot	130.39	-2.6	6.5	0.1	0.4
Renault	38.29	+.3	9.2	0.4	1.4
Volkswagen	66.07	+.5	24.9	0.3	0.8
Volvo A	18.78	-1	2.8	-	2.8
Volvo B	19.31	-1	5.9	0.9	2.7
BANKS RETAIL					
ABN Amro	15.80	-.6	22.9	12.7	3.0
Abbey Natl	16.27	-.2	23.0	2.9	3.5
Alliance & L	12.16	-.2	7.1	1.2	3.3
Allied Irish	12.98	+.2	11.1	-	1.0
Almanij	67.41	+1.1	13.1	0.1	1.0
Argentaria	19.47	-.5	9.6	1.6	1.6
Banca Comm	5.55	-.1	10.0	0.9	1.5
Bco Fideuram	4.87	-.1	4.4	1.8	1.2
Banca Intesa	4.86	+.1	12.4	4.3	0.6
Banca di Roma	1.43	-	7.7	28.8	-
Banco Bilbao	12.86	-.1	28.2	8.8	1.5
Banco Espan	8.44	-.1	18.4	3.9	1.2
Banco Comerc	25.66	-.7	6.1	-	1.8
Banco Popolo	66.45	-.8	6.7	6.4	2.2
Banco de San	16.58	-.1	19.3	6.5	1.7
Bank Austria	44.39	+1.7	3.8	0.1	2.3
Bank of Irel	16.90	+.2	8.7	-	1.9
Bank Scot	9.07	+.1	11.2	3.2	2.6
BNP	64.86	+1.6	14.1	8.6	1.8
Barclays	18.70	-1	28.1	8.9	3.7
Bay Hypo Ver	67.34	-1.7	28.8	8.2	1.2
Commerzbank	25.69	-1.6	12.2	0.8	3.0
CCF	66.46	-1.1	5.0	0.1	1.5
CS Group (Re	137.26	-3.5	36.9	1.8	2.3
Danske Bank	109.36	+.5	5.8	0.1	2.2
Deutsche Ban	46.26	-2.2	28.9	9.5	1.9
Dresdner Ban	34.85	-1.4	18.1	8.4	2.3
ForeningsSpa	22.44	-.4	7.9	8.9	2.8
HSBC (75p)	21.90	+.1	19.3	1.8	4.2
HSBC (HK$10)	20.67	+.1	37.5	2.0	4.5
Halifax	11.92	+.1	29.1	3.4	3.6
KBC Holdings	59	+.2	17.4	0.3	-
LloydsTSB	11.21	-	60.9	12.5	2.9
Mediobanca	8.78	-.1	5.6	3.2	1.2
Merita	4.92	-.1	4.8	1.8	3.5
Nat West	15.08	+.1	25.6	3.5	3.8
Nordbanken H	5.22	-.1	6.6	2.7	3.0
Paribas	72.12	-.8	11.8	6.5	-
Rolo Banca	19.91	-.1	8.5	0.8	1.6
Ryl Bk Scot	12.33	+.2	10.8	2.0	3.2
SanPaolo-IMI	13.79	-	19.3	4.3	-
S-E-Banken A	9.58	+.1	5.4	2.2	3.3
Soc Generale	133.58	+1.8	13.8	0.4	2.4
Stand Chrtd	8.76	-.1	8.6	4.8	3.9
Sv Handelsb	32.66	-.6	7.6	0.2	2.1
UBS AG (Reg)	240.63	-4.8	51.6	1.2	2.8
Unicredito	4.48	-	28.9	38.2	0.9
Woolwich	5.21	-	8.2	1.6	3.4
BREWERIES, PUBS & RESTAURANTS					
Bass	11.52	-	9.2	1.6	-
Compass	8.68	+.1	5.9	1.2	1.0
Scot & New	10.77	+.1	6.7	1.8	3.9
Whitbread	11.21	-.2	5.5	1.1	4.2
BUILDING MATERIALS & MERCHANTS					
CRH	13.11	+.3	5.1	-	1.2
Hanson	6.12	-.2	4.0	0.7	3.5
Heidelb Zem	64.28	-	2.7	-	1.3
Holderbank B	959.39	-12.2	4.9	-	1.3
Lafarge	80.64	+.3	8.3	0.1	2.1
Saint Gobain	118.37	-2.6	10.7	0.4	2.4
CHEMICALS					
AGA A	10.46	-.1	1.4	0.1	3.0
AGA B	9.95	-.2	1.1	0.2	3.2
Air Liquide	141.19	-3.4	11.7	0.2	1.5
Akzo	34.77	-.7	9.0	2.2	2.8
BASF	30.81	-.7	19.1	0.6	3.3
BOC	12.36	-	6.0	1.5	4.1
Bayer	33.72	-1.1	24.6	0.5	2.9
Ciba Spec Ch	74.71	-3.1	5.0	0.5	-
Hoechst	36.25	+.4	20.7	0.3	2.2
ICI	7.65	+.1	5.6	7.0	5.9
Solvay	57.94	-.7	4.8	0.2	2.8
UCB	4,714.05	+45.4	7.0	-	0.4
CONSTRUCTION					
Bouygues	176.73	-1.3	4.6	0.1	1.5
Skanska B	23.18	-.2	2.4	0.6	5.0
DISTRIBUTORS					
Adidas Salom	99.84	-1.9	4.1	0.1	0.9
GEHE	58.03	+1.7	4.1	-	1.2
Rexel	75.01	-.6	3.6	-	1.2
DIVERSIFIED INDUSTRIALS					
Gambro A	10.11	-1	3.5	0.3	2.1
Investor B	36.19	-	4.1	0.4	2.9
Investor A	35.51	+.2	2.8	0.1	3.0
Montedison	0.97	-	5.8	30.8	2.1
RWE	43.37	-1.1	23.8	0.3	2.0
Suez-Lyon de	163.86	-1.4	24.1	0.4	1.4
Tomkins	3.77	-	4.4	3.5	5.1
Veba	45.65	-1.8	22.6	0.3	2.4
Vivendi	196.22	-3.8	29.8	0.6	1.2
ELECTRICITY					
Br Energy	9.01	-1	6.5	1.4	3.0
Edison	8.37	+.1	5.3	1.4	1.4
Electrabel	320.37	-1.4	17.5	-	2.8
Elect de Por	18.77	-.4	6.2	-	3.4
Endesa	21.59	-.8	20.7	3.2	2.1
Iberdrola	14.26	-.1	12.9	2.3	2.4
Natl Grid	6.66	-	9.8	3.4	3.3
Natl Power	7.37	-	9.1	3.4	6.3
PowerGen	11.61	-.2	7.5	1.8	4.6
Scot Power	9.31	+.3	11.2	4.3	4.0
Southern El	9.60	-.3	4.6	0.3	4.4
Tractebel	143.48	+7.1	12.1	0.1	1.4
ELECTRONIC & ELECTRICAL EQPT.					
ABB A	8.57	-.3	8.0	2.4	2.6
ABB (Br)	989.86	-12.2	8.2	0.1	2.5
Alcatel SA	110.38	-2.5	21.9	1.2	1.6
Alstom	19.93	+.1	4.3	0.3	-
Ericsson B	23.02	-.3	44.8	7.5	0.8
GEC	6.38	-1	17.1	5.8	3.2
Lagardere	32.91	+.5	3.9	0.5	2.1
Lahmeyer	42.45	-.4	1.8	-	3.2
Legrand	228.79	-4.2	5.8	-	0.6
Nokia A	96.58	+3.5	22.2	2.0	0.7
Philips	53.10	+.3	18.8	2.8	1.7
Schneider	50.36	-.3	7.7	0.5	2.8
Siemens	57.42	-1.8	33.6	0.4	1.3
ENGINEERING					
Atlas Copco A	18.20	-.6	2.2	0.4	2.5
Atlas Copco B	17.89	-.5	1.1	0.2	2.5
BTR	1.81	-	5.2	8.9	6.5
Brit Aero	6.77	-.3	5.9	10.3	1.4
Br Steel	1.38	-	2.7	2.5	12.8
Degussa	41.87	-.3	3.8	0.1	1.8
GKN	9.50	+.3	6.8	0.9	2.3
Linde	469.19	+3.2	3.8	-	2.1
LucasVarity	2.88	-1	4.1	1.2	2.9
MAN	246.42	-2.6	3.6	-	3.3
Mannesmann	98.90	+1.1	35.6	0.2	0.6
Michelin B	35.15	+.1	4.8	0.5	1.6
Pirelli Spa	2.63	+.1	5.0	7.2	2.4
Preussag	312.75	-7.4	6.1	-	1.8
Sandvik A	14.92	-.4	3.8	1.8	5.8
Scania A	15.35	-.2	1.5	0.2	3.8
Scania B	15.50	-.2	1.6	0.3	3.8
Siebe	2.85	-1	6.0	27.8	2.1
Smiths Ind	11.81	+.2	3.7	1.4	2.9
TI	4.56	-1	2.2	0.8	5.1
Thomson CSF	31.65	+.4	5.3	0.1	1.7
Thyssen	149.28	-2.9	5.7	-	4.8
Viag	490.88	-14.7	13.1	-	1.5
Valeo	66.46	-1.6	5.6	0.2	1.4
EXTRACTIVE INDUSTRIES					
Billiton	1.82	-	3.9	4.2	-
Rio Tinto	10.04	-	10.7	2.0	4.5
FOOD PRODUCERS					
A B Foods	7.81	-1	7.0	2.8	2.1
Cadbury Schw	12.32	-.2	12.5	1.7	2.1
Danisco	43.34	-.3	2.6	0.1	1.9
Danone	241.81	-1.8	17.8	0.2	1.2
Eridania B-S	153.87	-1.3	4.8	-	3.5
Nestle R	1,721.42	-5.8	67.9	0.2	1.5
Unilever NV	68.30	-1.2	48.8	3.5	1.6
Unilever PLC	8.32	-.2	27.1	6.6	1.8
GAS DISTRIBUTION					
BG	5.76	-	22.7	4.1	2.5
Centrica	1.76	-	7.6	15.8	-
Gas Natural	79.91	+.2	18.5	0.2	0.5
HEALTH CARE					
Nycomed Amer	5.21	-.2	3.3	0.4	1.4
HOUSEHOLD GOODS & TEXTILES					
Beiersdorf	53.97	-4.9	4.5	0.1	1.8
Christian Di	88.40	-.6	4.8	0.1	2.9
Electrolux B	13.22	-	4.7	0.8	2.0
Henkel PF	65.87	-2.1	3.9	0.1	1.1
L'Oreal	592.66	-8.6	34.9	0.1	0.5
Reckitt & C	11.88	+.1	4.8	0.6	2.9
Swatch Br	460.71	-3.3	1.7	-	1.4
Swatch Reg	113.31	-.2	1.7	-	7.1
INFORMATION TECHNOLOGY					
Baan Co.	9.95	+.1	2.1	1.8	-
Cap Gemini	124	+.7	6.5	0.3	0.4
Misys PLC	5.73	-.2	3.2	1.9	0.9
SAP (Pref)	426.81	+.7	18.9	-	0.3
SAP	378.77	+4.2	23.8	-	0.4
Sema Gp	6.68	+.3	3.1	0.9	0.5
INSURANCE					
Axa	103.44	-2.4	36.6	0.9	1.3
Aachen Mch (	138.10	-0.2	7.1	-	0.6
Allianz	280.28	-	70.1	0.1	0.3
Allied Zurich	11.58	-	18.2	6.0	-
AGF	49.83	-.1	9.2	0.2	1.6
Baloise (Reg	768.36	+20.9	4.5	-	3.4
CGU	13.02	+.2	17.0	3.2	3.6
Ergo Versich	140.30	+.3	10.8	-	0.5
Fortis AG	283.47	-.8	21.2	0.1	1.1
Fortis Amev	58.58	-.7	11.2	1.4	1.9
Generali	31.44	-	32.2	4.8	0.8
G R E	4.55	+.1	4.0	4.8	4.2
ING	44.80	-1.6	42.0	0.2	2.8
Munich Reock	383.19	-1.5	33.5	-	0.2
Ras	10.75	-.3	6.4	2.0	1.6
Royal Sun Al	6.80	-1	10.6	4.6	4.9
Skandia	11.48	-.3	5.9	1.9	0.7
Swiss Re R	2,082.52	-30.6	30.4	-	1.3
Zurich Allie	583.98	+6.6	28.3	0.3	1.3
INVESTMENT COMPANIES					
3i Group	7.82	-	4.7	0.9	2.4
EBL	170.29	-.4	4.1	-	2.3
LEISURE & HOTELS					
Accor	184.48	-2.1	6.6	0.1	1.8
Granada	13.45	+.7	12.2	3.4	1.9
Ladbroke	3.32	-	4.0	2.3	3.0
Rank Group	3.18	-	2.4	4.4	9.6
LIFE INSURANCE					
Aegon	87.10	-.1	58.8	5.2	1.0
Alleanza Ass	11.16	-.2	9.2	2.7	0.7
Ina	2.22	-	8.8	22.9	1.6
Legal & Gen	10.06	+.2	12.9	2.0	2.3
Norwich Un	5.83	-	11.2	3.4	3.8
Prudential	12.19	+.1	23.7	2.7	2.3
Sun Life & P	6.89	-1	5.7	0.3	3.1
MEDIA					
B Sky B	6.98	-	12.1	4.5	1.5
Canal Plus	198.87	+.2	8.2	0.1	1.5
Carlton C	6.98	+.2	4.5	3.3	3.1
EMI	5.25	+.1	4.1	5.6	4.4
Elsevier	10.96	-.2	7.3	4.5	3.6
Mediaset	5.80	-.1	6.8	3.2	2.8
Pearson	15.04	-1	9.2	2.6	2.4
Polygram	51.78	-	9.3	0.1	0.9
Reed Int	6.43	-.1	7.4	8.1	4.1
Reuters	7.82	-.1	11.1	5.8	3.0
Utd News	8.05	-.2	4.0	0.7	4.2
VNU NV	28.29	-.4	5.4	1.6	1.2
WPP	4.58	-	3.6	0.8	0.8
Wolters Kluw	191.70	-4.1	18.5	0.6	0.9
OIL, INTEGRATED					
BP	12.30	-.5	72.8	27.5	3.4
ENI	5.13	-	41.8	27.9	2.8
Norsk Hydro	30.76	-1.6	3.5	0.5	2.8
Petrofina	411.98	-9.6	9.6	0.2	2.1
Repsol	47.88	-.9	14.1	1.7	1.8
Royal Dutch	39.82	-1.1	83.7	8.8	3.7
Shell Trans	4.80	-.2	47.8	14.2	3.6
Elf Aquitaine	100.42	-2.8	22.6	1.1	2.3
Total B	89.77	-4.3	21.8	3.8	2.2
OTHER FINANCIAL					
Amvescap	6.31	-.1	4.2	1.6	1.8
CLF Dexia	124.76	-1.4	4.8	0.1	2.1
Dexia	137.79	+.4	8.1	-	0.7
Prov Finl	13.04	+.7	3.4	0.2	2.8
Schroders	15.92	-1	4.8	0.2	1.6
PAPER PACKAGING & PRINTING					
Alusuisse-Lo	1,007.95	-21.5	6.3	-	-
SCA A	18.38	-.2	1.1	-	3.3
SCA B	17.89	-.5	2.4	0.2	3.4
Stora A	9.84	-.4	3.2	0.6	4.0
UPM-Kymmene	22.44	-.2	6.2	0.4	4.1
PHARMACEUTICALS					
Astra A	15.66	+.3	25.6	8.0	1.2
Glaxo Wellcm	28.76	+.2	98.7	6.8	1.9
Novartis R	1,598.81	+.1	98.4	0.1	1.0
Novo Nordisk	100.64	+2.8	6.5	0.2	0.8
Rhone Poulnc	38.88	-1.1	14.5	1.8	1.8
Roche Hold G	9,958.10	+21.5	94.2	-	0.5
Sanofi	141.49	-10.7	15.3	0.4	0.8
Schering	103.64	-1.5	7.1	0.1	1.3
SmKl Bchm	10.80	+.2	58.1	8.1	1.6
Synthelabo	182.42	-4.8	8.8	0.2	0.5
Zeneca	34.88	-.1	32.4	1.2	2.0
PROPERTY					
Br Land	7.04	-	3.6	1.6	2.3
Land Sec	11.19	-.1	6.1	1.6	4.5
RETAILERS, FOOD					
Asda	2.19	-	6.7	6.5	2.9
Ahold	28.38	-.6	17.6	5.3	1.2
Carrefour	614.65	+4.4	23.8	0.1	0.7
Casino	69.18	-1.8	7.8	0.1	1.5
Delhaize Frs	69.02	+.4	3.6	0.1	1.1
Promodes	546.65	-3.4	10.3	-	0.6
Safeway	4.16	-	4.6	1.7	6.0
Sainsbury	6.78	-.3	13.0	3.3	3.7
Tesco	2.47	-	16.4	11.1	2.8
RETAILERS, GENERAL					
Boots	13.92	-.5	12.2	4.0	3.8
Dixons	10.74	+.3	4.6	3.5	2.1
GUS	8.14	-.7	8.2	3.1	4.4
H & M B	62.07	+.6	11.5	0.3	0.5
Kingfisher	7.72	-1	10.5	4.8	2.8
Marks & S	5.67	-.2	16.2	12.6	4.5
Metro AG	52.91	+1.8	14.8	0.2	1.9
Pinault Prin	138.60	-3.7	16.3	0.1	0.9
SUPPORT SERVICES					
Adecco (Br)	357.98	-4.5	6.1	-	1.0
Hays	6.60	-.4	6.7	1.7	1.4
Randstad Hld	42.15	-.9	4.9	0.2	1.8
Ratin A	154.21	-6.3	1.6	-	1.6
Ratin B	157	-2.8	3.1	0.2	1.0
Rentokil Ini	5.39	-	15.4	3.8	1.1
Sodexho	169.80	+4.5	5.8	-	0.8
TNT Post Grp	19.74	-.6	9.4	3.5	0.7
Williams	5.29	-.1	3.8	1.4	4.5
TELECOMMUNICATIONS					
BT	11.24	-	72.6	8.9	3.1
Cable & Wire	7.60	+.1	11.3	-	-
Cable & W	10.48	+.2	25.2	9.2	1.8
Deutsche Tel	24.65	+.2	16.5	0.4	2.5
France Telec	59.34	+.7	18.7	2.8	1.7
Olivetti	2.22	-	8.2	33.6	-
Orange	8.48	-	10.2	3.2	-
Portugal Tel	36.72	-.9	6.2	-	2.3
ROYAL KPN	33.66	-1.2	16.8	3.1	2.7
Securicor	6.39	-	3.8	1.0	0.5
Tele Danmark	95.52	+.9	10.4	0.4	2.5
Telecom Ital	6.57	-.1	43.4	23.6	1.6
TIM	5.34	-.1	40.1	19.4	0.8
Telefonica	38.58	-1.1	36.6	3.1	1.2
Telewest Com	1.91	-	4.1	17.1	-
Vodafone	12.13	+.1	37.5	8.4	0.8
TOBACCO					
Brit Am Tob	7.51	-.1	11.8	3.5	5.3
Gallaher	5.90	-.1	4.0	1.3	4.9
Imperial Tob	6.83	-.2	4.6	1.3	4.8
Richemont A	1,244.53	+12.8	6.5	-	1.1
TRANSPORT					
Acesa	13.86	-	3.5	0.2	2.5
BAA	9.31	+.1	9.8	2.2	2.7
D/S 1912 B	8,668.84	-138.4	3.0	-	0.1
D/S Svendbor	7,917.14	-128.5	2.8	-	0.1
Lufthansa	18.86	-.3	3.4	6.4	2.8
P & O	9.54	-	6.4	7.0	5.0
Railtrack	23.56	-.3	11.9	2.2	1.7
Stagecoach	3.19	-	4.1	4.0	1.4
WATER					
Anglian Wtr	12.19	-.1	3.3	0.5	5.8
Severn Trnt	14.80	-.1	5.6	0.4	4.8
Thames Water	16	-.4	9.6	1.0	4.4
Utd Utls	12.13	-.1	6.7	0.7	4.9

Notes

Price data and market capitalisations supplied by FTSE International. Market capitalisation figures are based on shares used in index calculations. Shares are not counted where foreign ownership restrictions apply. Market caps may include secondary lines not eligible as constituents. Stocks in bold type are domiciled in Ecu countries. Trading Volumes and yields derived from local domestic markets and supplied by Extel, part of FT Information.

Company classifications are based on those used for the FTSE Eurotop share indices.

Prices of stocks may move on public holidays due to currency fluctuations.

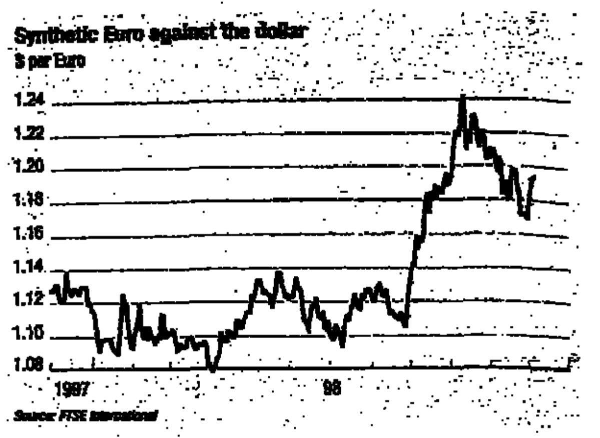
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Dec 02	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.049048	-0.0011	-0.01	-0.0005	+0.00
Belgium	BEF	41.192670	+0.0038	+0.01	+0.0009	+0.00
Czech Republic	CZK	36.165477	+0.0321	+0.09	+0.2252	+0.63
Denmark	DKK	7.591516	-0.0012	-0.02	-0.0008	-0.01
Finland	FIM	6.070348	-0.0015	-0.02	-0.0018	-0.03
France	FRF	6.698002	-0.0003	+0.00	-0.0003	-0.01
Germany	DEM	1.996794	-0.0002	-0.01	-0.0001	-0.01
Greece	GRD	335.754935	-0.1111	-0.03	+0.7286	+0.22
Hungary	HUF	260.866224	+0.7194	+0.28	+2.6622	+1.03
Ireland	IEP	0.803730	+0.0005	+0.07	+0.0005	+0.06
Italy	ITL	1977.159853	+0.3574	+0.02	+0.1089	+0.01
Luxembourg	LUF	41.192670	+0.0038	+0.01	+0.0009	+0.00
Netherlands	NLG	2.250421	-0.0004	-0.02	-0.0012	-0.05
Norway	NOK	8.873875	+0.0304	+0.34	+0.1056	+1.20
Poland	PLN	4.153522	+0.0090	+0.22	+0.0900	+2.21
Portugal	PTE	204.938807	+0.0933	+0.05	-0.0201	-0.01
Romania	ROL	12138.308960	+130.3408	+1.09	+317.3582	+2.68
Russia	RUB	22.915982	+0.6614	+2.97	+1.8281	+8.67
Slovakia	SKK	43.166787	+0.0030	+0.01	+0.0209	+0.05
Spain	ESP	169.946261	+0.0048	+0.00	+0.1027	+0.06
Sweden	SEK	9.628880	-0.0013	-0.01	+0.1769	+1.87
Switzerland	CHF	1.635986	-0.0011	-0.07	-0.0120	-0.73
United Kingdom	GBP	0.718512	-0.0016	-0.22	+0.0134	+1.89
ECU	ECU	1.018050	-0.0001	-0.01	+0.0045	+0.44
Americas						
Brazil	BRL	1.432965	+0.0034	+0.24	+0.0303	+2.16
Canada	CAD	1.833637	+0.0095	+0.52	+0.0195	+1.07
Mexico	MXN	11.865472	-0.0638	-0.53	+0.2653	+2.28
United States	USD	1.193541	+0.0035	+0.29	+0.0220	+1.88
Pacific/Middle East/Africa						
Australia	AUD	1.896630	-0.0011	-0.06	+0.0639	+3.51
Hong Kong	HKD	9.243615	+0.0264	+0.29	+0.1711	+1.89
Japan	JPY	143.845526	-1.2498	-0.86	+2.4979	+1.77
Singapore	SGD	1.965762	+0.0093	+0.47	+0.0483	+2.52
South Africa	ZAR	6.749473	+0.0136	+0.20	+0.0976	+1.47

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0115, PTE 0.0155, ATS 0.0328, FIM 0.0187.

Synthetic Euro against the dollar
$ per Euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Dec 02	Fixed rate	Market rate	Diff fxd v mkt%	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0358	+0.00	+0.00	7.0354	3.65	-0.07
Belgium	20.6255	20.6294	+0.02	+0.03	20.6266	3.54	-0.18
France	3.35386	3.3534	-0.01	-0.03	3.3531	3.6	-0.12
Finland	3.04001	3.04	+0.00	+0.02	3.0398	3.64	-0.08
Ireland	0.402676	0.4025	-0.04	-0.12	0.4025	3.72	+0.00
Italy	990.002	990.1674	+0.02	-0.01	990.2594	3.84	+0.12
Luxembourg	20.6255	20.6294	+0.02	+0.03	20.6266	3.54	-0.18
Netherlands	1.12674	1.127	+0.02	+0.06	1.1268	3.49	-0.23
Portugal	102.505	102.633	+0.12	+0.03	102.6303	3.69	-0.03
Spain	85.0722	85.1106	+0.05	-0.02	85.1062	3.68	-0.04
Germany	1		+0.00	+0.00		3.72	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3, forward rates are exchange rates to 31/12/98 interpolated from market quotes: forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98; DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

INTEREST RATE SWAPS

Dec 02	D-Mark Bid	D-Mark Ask	Ecu Bid	Ecu Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.39	3.42	3.43	3.47	0.00	0.00	4.95	4.98	0.42	0.45
2 year	3.40	3.43	3.41	3.45	5.89	5.93	4.96	4.99	0.51	0.54
3 year	3.48	3.51	3.49	3.53	5.81	5.85	5.01	5.04	0.64	0.67
4 year	3.61	3.64	3.61	3.66	5.76	5.80	5.07	5.10	0.77	0.80
5 year	3.76	3.79	3.76	3.80	5.69	5.73	5.13	5.16	0.92	0.95
6 year	3.92	3.95	3.92	3.96	5.62	5.66	5.19	5.22	1.06	1.09
7 year	4.05	4.08	4.05	4.09	5.57	5.61	5.25	5.28	1.20	1.23
8 year	4.17	4.20	4.17	4.21	5.53	5.57	5.31	5.34	1.33	1.36
9 year	4.27	4.30	4.27	4.31	5.52	5.56	5.37	5.40	1.46	1.49
10 year	4.35	4.38	4.35	4.39	5.51	5.55	5.43	5.46	1.58	1.61
12 year	4.49	4.52	4.49	4.53	5.48	5.53	5.52	5.55	1.80	1.84
15 year	4.67	4.70	4.67	4.71	5.46	5.51	5.62	5.65	2.05	2.09
20 year	4.88	4.91	4.88	4.92	5.41	5.48	5.68	5.71	2.25	2.30
25 year	4.99	5.02	4.99	5.03	5.39	5.46	5.68	5.71	2.32	2.37
30 year	5.05	5.08	5.05	5.09	5.38	5.46	5.67	5.70	2.38	2.43

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR, £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR, D-mark and Ecu quoted on annual bond 30/360 basis against 6 months LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

EUROZONE CORPORATE BONDS

Dec 02	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	111.850	4.18	-0.01	-0.20	+0.11
France (Rep of)	04/08	5.250	AAA	109.790	3.98	+0.00	-0.29	-0.09
Italy (Rep of)	05/08	5.000	AA	106.780	4.12	-0.04	-0.39	+0.05
Portugal (Rep of)	06/08	5.375	AA-	108.510	4.27	-0.01	-0.29	+0.20
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	104.250	3.76	-0.04	-0.21	+0.11
Gen Electric Cap Crp	10/04	5.500	AAA	108.650	3.81	-0.03	-0.22	+0.13
Oest Kontrollbank	04/08	5.250	AAA	107.790	4.22	-0.01	-0.31	+0.15
Cred Local de France	04/08	5.250	AA+	106.350	4.41	-0.03	-0.37	+0.34
Ecu Issues								
Bayer Hypo & Wch Bk	07/01	5.000	AA-	103.653	3.49	-0.01	-0.31	-0.08
Cred Foncier France	03/04	8.375	A	118.159	4.24	-0.03	-0.27	+0.58
Euro Inv Bank	04/04	5.250	AAA	107.770	3.62	-0.03	-0.33	-0.06
ABN Amro Hldg. NV	04/07	6.375	AA-	112.029	4.61	-0.01	-0.31	+0.67

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

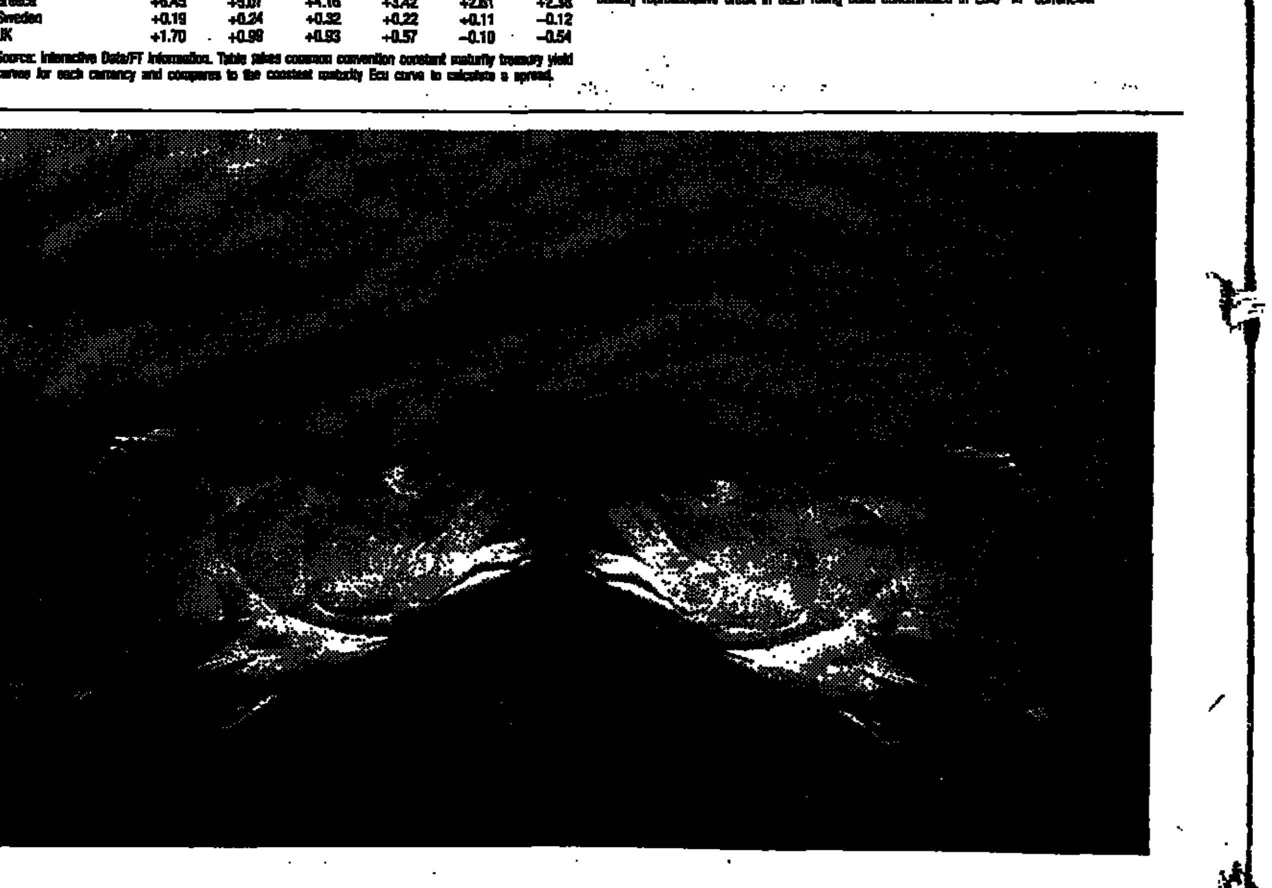
Dec 02	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	-0.09	+0.08	+0.23	+0.06	-0.30	+0.20
Belgium	-0.10	+0.01	+0.15	+0.16	+0.07	+0.16
Finland	-0.21	+0.08	+0.20	+0.14	-0.49	-0.72
France	-0.18	-0.08	-0.10	-0.09	-0.10	-0.07
Germany	-0.21	-0.09	+0.03	-0.18	-0.13	-0.07
Ireland	+0.00	-0.08	+0.05	+0.11	+0.08	+0.46
Italy	-0.02	+0.08	+0.14	+0.16	+0.14	+0.22
Luxembourg	-0.10	+0.01	+0.15	+0.16	+0.07	+0.16
Netherlands	-0.12	+0.00	+0.07	-0.06	+0.05	-0.06
Portugal	-0.04	+0.20	+0.25	+0.20	+0.32	+0.25
Spain	-0.19	+0.01	+0.23	+0.26	+0.11	+0.20
"OUTs"						
Denmark	+0.45	+0.37	+0.29	+0.18	-0.09	+0.56
Greece	+6.45	+5.07	+4.16	+3.42	+2.61	+2.38
Sweden	+0.19	+0.24	+0.32	+0.22	+0.11	-0.12
UK	+1.70	+0.98	+0.93	+0.57	-0.10	-0.54

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Dec 02	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.11	+0.14	+0.17
France Telcom	AA+	11/06	6.250	FRF	+0.29	+0.20	+0.18
Halifax	AA	07/07	5.625	DEM	+0.38	+0.41	+0.42
Ing Bank NV	AA-	01/08	5.500	NLG	+0.36	+0.32	+0.18
Bayer Hypo W Bk	AA-	02/02	6.750	ITL	+0.28	+0.25	+0.21
Cred Foncier	A	02/03	7.250	DEM	+0.58	+0.45	+0.39
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.52	+0.57	+0.48
Generale des Eaux	N/A	03/04	6.250	FRF	+0.42	+0.41	+0.37
Bank of China	BBB	07/99	7.125	DEM	+1.77	+1.59	+2.32
Natl Bk of Hungary	BBB-	09/01	9.000	ATS	+1.03	+0.63	+1.11
Korea Dev Bank	BB+	11/02	5.625	FRF	+5.86	+5.63	+6.30
Argentina	BB	04/08	8.125	XEU	+5.28	+5.23	+5.40

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.



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SWEDEN

Who is prepared for the single currency?

The onset of the euro threatens to polarise existing divisions between the big exporters and the smallest manufacturers. **Tim Burt** finds widely differing attitudes to the single currency, from those actively preparing for it and those devoting little or no time to it

Earlier this year, the Stockholm Stock Exchange announced with a fanfare that Swedish companies would be able to list in euro from January 1999 – even though Sweden would be abstaining from the single currency.

So far, not a single company has taken up the offer, preferring instead to retain their share price in krona.

"It is a little surprising for us," says Hans Edenhammar, a senior official at the Stockholm bourse. "Perhaps the euro is not such a big issue for Swedish companies as we thought."

Certainly, some executives in Scandinavia's largest economy remain deeply ambivalent towards European economic and monetary union, and there is no obvious appetite among small investors for euro-denominated stock.

Suspicion of the single currency is, however, far from universal.

Indeed, the onset of the euro threatens to polarise existing divisions in Swedish industry, exposing the growing gulf between the country's largest exporters – such as Ericsson, the telecommunications giant, and Volvo, the automotive group – and the smallest manufacturers.

A new survey by KPMG Bohlins, the Swedish arm of the UK accountancy firm, highlights the differing attitudes to the euro.

As expected, corporations with large sales in the euro-zone have appointed internal taskforces to deal with the problems of adjusting to the new currency. Many of them have technical experts to deal with currency-related problems – mainly in information technology. And some have drawn up detailed strategies on how to manage the balancing act of serving euro-zone customers, while remaining outside it for their own accounting purposes.

Moreover, those big companies with share listings in Frankfurt or Paris – such as Ericsson – will be quoted in euro on those exchanges, even if they have rejected the idea in Stockholm.

Sweden's smaller companies are far less prepared for the single currency. Among employers with less than 30 workers, few believe they need to devote any management time to euro budgets or strategies.

Of greater concern, perhaps, the KPMG survey found some large groups were equally diffident. Over 20 per cent of companies employing more than 200 staff had no euro strategy, and only 4 per cent had set aside any funds to cover potential problems.

'We will be changing over to the single currency for all our purchasing within the euro area next year'

Lars I. Persson, Volvo

"The big contradiction is that almost all the companies in the survey are urging Sweden to join the euro, but relatively few are actively preparing for it," says Göran Nirdén, Emu co-ordinator at KPMG Bohlins.

There are two main reasons behind the euro inertia, at least among small companies. First, many companies believe the Swedish government's wait-and-see approach to Emu means the country will be unlikely to join the euro before 2002, and only then with the backing of a referendum. Whether real or imagined, executives think they have a breathing space before the euro will affect their businesses.

Second, the findings in the KPMG survey underline the hour-glass profile of corporate Sweden. The country has a large number of domestically oriented small companies – which do not see the euro as a threat. It also has a surfeit of large international corporations – which are actively preparing for the new currency.

But Sweden has a shortage of medium-size companies with small but growing overseas sales. Arguably, that sector would be hardest hit by rivals inside the euro-zone gaining the benefits of currency stability and reduced transaction costs.

In the absence of a middle-rank business sector it has been left to Sweden's big name manufacturers and financial services groups to lead commercial preparations for the euro.

Volvo, Ericsson, SKF, the bearings manufacturer, Svenska Handelsbanken, Sweden's largest bank, and SEB, the Swedish bank, to name a few, have devoted hundreds of man-hours to the euro.

Ericsson, which relies on euro-zone countries for 22 per cent of its SKr170bn (£12.7bn) turnover, has spent three years working on the project. In the past 12 months its preparations have gathered pace, with its Dutch subsidiary piloting euro transactions from initial orders to final invoices.

"We found that 75 per cent of the actions required were in the treasury area, and most of the problems were IT related," according to Ann Westergren, director of corporate treasury at Ericsson.

At each stage of the Dutch pilot project, the executives involved briefed other Ericsson colleagues on how to adapt the model to different parts of the organisation.

Volvo, by comparison, has spent about a year preparing its treasury and purchasing organisation for the single currency.

Given that Volvo will rely on the euro-zone for about a third of its SKr184bn annual revenues, it could achieve significant cost-savings by exploiting the single currency.

Lars I. Persson, head of Volvo's euro preparations, estimates initial savings on purchasing of SKr100m following the euro launch.

"We will be changing over to the single currency for all our purchasing within the euro area next year," says Mr Persson, who has briefed 300 senior executives on potential synergy benefits from Emu.

Active preparations among Sweden's largest manufacturers have been matched by banks such as SEB, formerly Skandinaviska Enskilda Banken. It has invested heavily in new IT systems to handle euro payments and clearing. From next year, the bank will also use its Frankfurt subsidiary to access the Target clearing system.

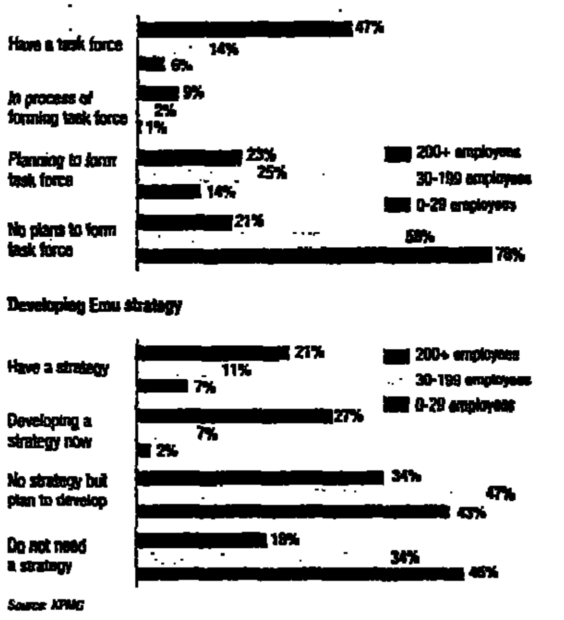
"It is a highly competitive game and we need to offer the same payments system as banks in the euro-zone," says Per Jederfors, SEB's head of group staff (Emu).

All that activity reflects growing euro enthusiasm among Sweden's leading financial institutions and manufacturers. By demonstrating their readiness for the single currency, they hope to create a trickle-down effect whereby an increasing number of their customers and suppliers also embrace the euro.

The underlying but rarely stated ambition is for corporate Sweden to show political Sweden – namely the ruling Social Democrats – that the single currency is a useful commercial tool and not a threat.

Swedish companies and EMU

Preparations for EMU



Source: KPMG

Disharmony ahead on value added tax

A manager's guide to *the euro*

The good thing about the launch of the euro is that it has got nothing to do with tax. All this talk about tax harmonisation comes long after January 1 – correct?
In theory – but in practice it will have a lot to do with tax and particularly Value Added Tax. Any business which does not at least review its VAT position before January 1 would be one step behind its competitors.

Why?
At the moment rates of VAT vary considerably within the European Union. All the states have VAT. There is an acceptable EU band of standard VAT rates between 15 per cent and 25 per cent. The so-called reduced rate is supposed to lie between 5 per cent and 9 per cent – although some countries have secured politically sensitive zero-rated items.

So what changes on January 1?
Quite a lot for consumers – the ones who ultimately pay VAT. The euro will bring price transparency within the EU. Or at least it will appear to clear away the confusions of exchange rate differences. It will become obvious to consumers where VAT bites. It may leave consumers assuming that any price differences left are entirely due to tax – which will not always be the case. "The general effect will be to expose the impact of tax – which could well be a catalyst for convergence," says Graeme Ross, VAT expert with KPMG.

What will consumers notice first?
They'll begin to take much more notice of manufacturing and service prices within the EU. Take CDs. In Germany they attract 16 per cent VAT whereas across the border in Denmark the tax is levied at 25 per cent. Businesses will have to think about their pricing structures as a result. Consumers will think about tax shopping. Pressure is likely to build up within the EU to harmonise VAT to simplify matters.

Isn't there already a plan to harmonise VAT within the EU?
Yes. In 1992 EU states entered the transitional regime for VAT. Fiscal borders for VAT were removed while convergence was supposed to start. By 2001 we were theoretically supposed to be ready for a single market within which every business could treat Europe as its home country. But despite pressure from Brussels progress has been slow.

How would you pay VAT under the system envisaged for the EU?
The finished single VAT regime is supposed to be based on the "origin system". In other words, if you are in Rome and you have a customer in Milan and another in Frankfurt then both pay VAT at the Italian rate to Rome.

What system do we have at the moment?
At the moment we have the opposite system for business-to-business transactions. This is the "destination system" – the tax is paid at the rate charged in the country of consumption. But when goods go direct to a consumer we use the origin system – unless the value is more than Ecu70,000 (£49,210) when it shifts back to the destination system.

So will the introduction of the euro hasten the introduction of the full origin system?
It may. But there's a danger that it could be introduced before VAT rates are harmonised. And that could lead to massive tax shopping and major disruption of the normal pattern of manufacturing. Imagine what would happen to the CD market if those differential tax rates survived the introduction of an origin system.

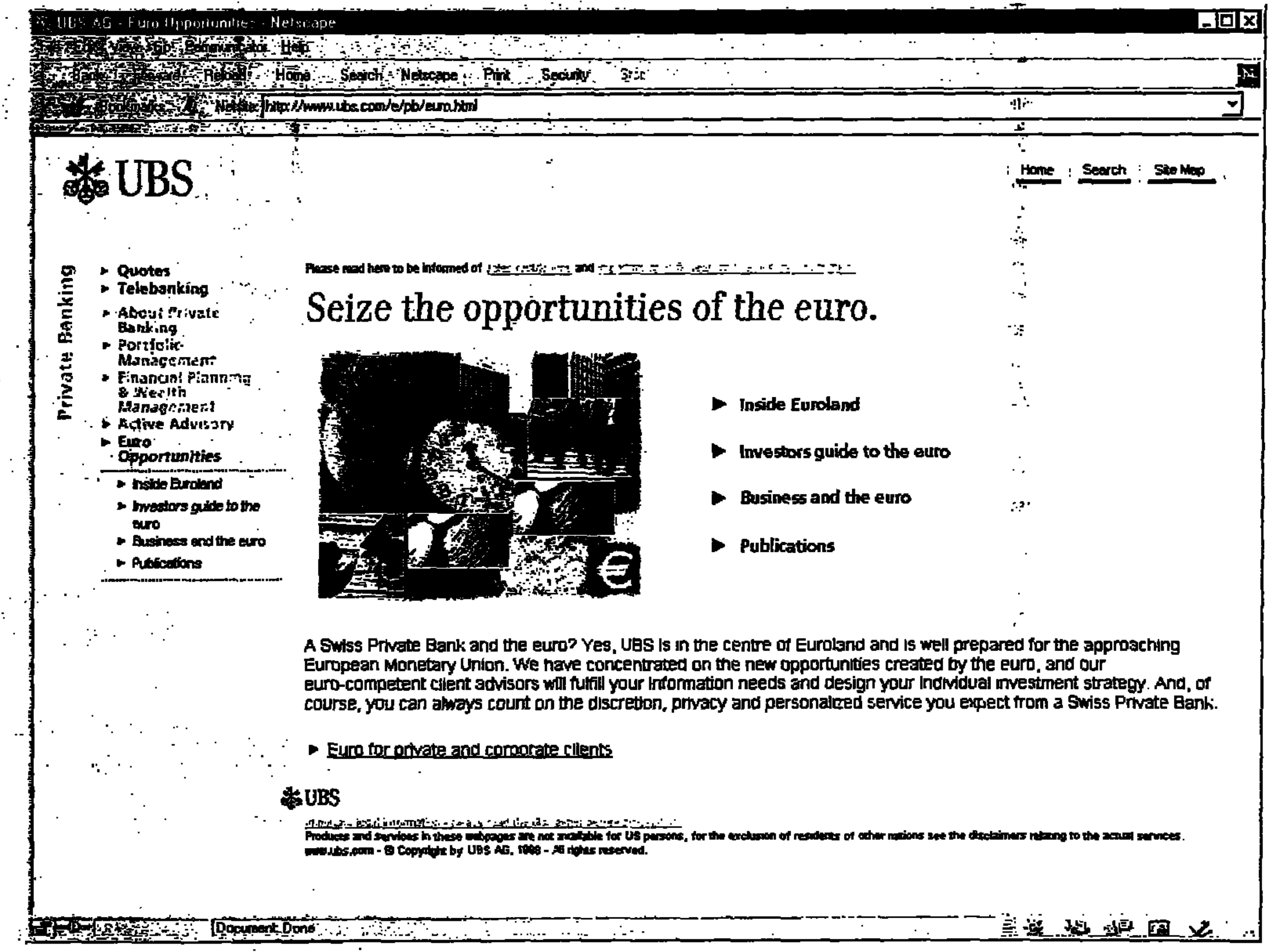
But all that's a bit theoretical. There's no real impact on businesses from day one.
Yes there is. The problem is that VAT depends on a massive sales and purchasing systems. Some participating countries are not yet ready to accept VAT data in euros – even when all commercial transactions are going to be conducted in them. Germany is a case in point. According to the Ministry of Finance the tax authorities' IT systems are not ready for the euro so returns will have to be in D-Marks. And the problems continue inside the EU even for countries outside the euro-zone.

The UK tax authorities are treating the euro as just another foreign currency. Even returns of businesses dealing entirely in euros would also have to be shown in sterling, or sterling equivalents.

So I may need dual systems for the euro and domestic currency for VAT returns?
Yes. And invoices during the year. Which means systems will have to be connected in some way to changes in exchange rates for non-participating currencies. There could be a considerable VAT compliance burden as a result.

Anything else to worry about?
Well there is e-commerce. The world's tax authorities are positioning themselves to take a common stance on how to tax the internet – they just can't agree what it is. At the moment transactions done by e-commerce will be taxed in the same way as any current transaction. If VAT is harmonised the EU will need to take a common stance. The problem is that the delivery of digitised products through the internet will demand a solution sooner rather than later. The real problem for the EU is dealing with products such as on-line books and CDs coming into the EU on a tax free basis. That could represent a real threat to EU businesses unless effective policing or tax co-operation is up and running.

Jim Kelly



Indonesian groups start buying debt

By Sander Thoenes in Jakarta

Indonesian companies are starting to buy back their debt or swap it for equity, offering hope that Indonesia's $80bn private debt overhang will gradually shrink.

Asia Pulp & Paper, a subsidiary of the Sinar Mas group, said the Widjaja family, which owns Sinar Mas, had recently bought back about a third of the $245m in outstanding bonds issued by AP&P's separate holding company. The family paid $600 each for $1,000 bonds that mature in 2000.

The move has raised expectations that more banks will start cutting their losses before the end of the calendar year.

Astra International, a car producer with more than $2bn in debt, said it would use $70m in proceeds from a subsidiary sale to buy back bonds. Traders said the first buyers of distressed bonds are likely to be the debtors themselves, many of whom managed to transfer cash off-shore and avoid bankruptcy.

"It makes commercial sense," said Ian Clyne, at ING Barings in Jakarta. "And it facilitates debt restructuring, because it takes out bond-holders and leaves the regular banks."

Didi Dermawan, a lawyer active in restructuring, said stand-still agreements between creditors and debtors would make it more difficult for debtors to buy back their own debt, as creditors would demand a say on important business decisions. He added that owners could still do so if they used off-shore funds and agents to approach the bankers.

While banks have held on to their share of syndicated loans, some have started cutting their losses on derivative deals such as dollar swaps. Many settle with their Indonesian counterpart directly at discounts of up to 95 per cent.

They are willing to take such cuts in part because a new bankruptcy court has so far failed to deliver, declaring only three bankruptcies and issuing three controversial rejections. Only 17 suits have been filed since the court opened in September.

Bankers say the failure of the court helps explain why debtors feel little need to sign up for a government-sponsored rescheduling framework, which would insure against foreign exchange risks but require high initial payments.

Fifty-two companies with total debt of $7bn had appealed to a separate government task-force, set up to intermediate debt talks, but bankers suspect the task-force will only further delay substantive negotiations.

Also, a number of companies are issuing convertible bonds to creditors in expectation of changes in the law.

The recent strengthening of the rupiah, from Rp17,000 per dollar to Rp7,500, has provided relief to corporate balance sheets.

Indonesia's central bank in January estimated private debt at $67.7bn and government debt, including state enterprises, at $65bn. Some $32bn would mature this year. Bankers put the figure closer to $80bn, as many bonds, commercial paper and derivatives were poorly registered.

US Treasuries lead gains

GOVERNMENT BONDS

By Arkady Ostrovsky in London and John Labate in New York

Prices closed higher yesterday as investors continued to favour fixed-income markets over equities, which remained weak as profit-taking continued.

Oil prices also continued to fall, taking even more pressure off inflation in Europe and the US and potentially supporting the view that the European Central Bank might be in the mood to cut interest rates later this month.

But the oil price decline, to a fresh low of $10.15 a barrel, was bad news for some emerging markets heavily dependent on oil exports, and emerging market debt prices fell in response.

US Treasuries led the gains as the stock market was hit by a morning of widespread selling. By early afternoon the 30-year long bond, the benchmark for US interest rates, was 7/16 higher at 103¾, sending the yield down to 5.015 per cent.

Shorter-term issues also gained ground, with the 10-year note 9/32 higher at 101 21/32, yielding 4.541 per cent, and the two-year note up 3/32 to 100 13/32, yielding 4.310 per cent.

Earlier, European markets had moved ahead across the board as investors continued to mull over comments by Wim Duisenberg, president of the ECB, earlier this week that some analysts suggested signalled interest rates were on the way down.

However, with some Emu countries, including Italy and Ireland, still needing to bring their domestic rates into line with the convergence target of 3.3 per cent, the ECB's room for manoeuvre may be limited.

Phyllis Reed at Barclays Capital said Mr Duisenberg's view that "downside risks continue to exist" in the core economies suggested the ECB could set the convergence interest rate for the euro-zone countries at 3 per cent, effectively implementing a 30 basis point cut.

German bunds were higher. The December future on the benchmark 10-year bund, which expires next week, rose 0.36 to close at 114.89, while the March contract closed at 115.70, up 0.46. But trading was not heavy with more activity in the cash market, where profit-taking continued at the very long end of the curve.

Other European markets saw little activity. Stephen King, economist at HSBC, argued that a switch from relatively illiquid European bond markets into bunds would be one of the main features of Europe's bond markets after the arrival of the euro next month.

UK gilts were also mildly stronger, with the March contract on the 10-year gilt 0.03 higher at 117.45.

BNG taps demand for euros

INTERNATIONAL BONDS

By Khozem Merchant and Vincent Boland

BNG, the Dutch public sector lender, yesterday launched a E1bn bond, its largest euro-denominated issue, to capture growing demand for the currency before monetary union.

The European Investment Bank also launched a E1bn bond, although it was able to launch it at a much tighter yield spread than the BNG offering.

BNG, the largest Dutch borrower after the sovereign, issued a 10-year bond, its first in this maturity, priced at 29 basis points over the Ecu-OAT curve.

EIB's bond, of the same maturity, was priced at eight basis points over the Ecu-OAT curve. Both bonds were trading at their re-offer price in the secondary market.

BNG lends mostly to domestic housing associations and other public utilities. Yesterday's issue is part of its Fl 50bn medium-term borrowing programme, under which Fl 38bn has been drawn. BNG expects to raise E8bn to E10bn in 1999, of which 50 per cent will be raised in straight euro-denominated paper.

Japanese investors, keen to expand euro-denominated holdings, picked up 18 per cent of the ticket. BNG is a familiar name in Japan, where it has tapped the domestic capital market.

European investors bought the bulk of the issue. ABN Amro, Goldman Sachs and Warburg Dillon Read were the joint lead arrangers.

Deutsche Bank issued $500m of five-year floating-rate notes at Libor plus 12 basis points, following its takeover of Bankers Trust. There was concern in the market that Deutsche would fund the transaction entirely in the bond markets so yesterday's deal suggests a more balanced programme, including an equity issue, to fund the purchase.

The convertible bond market is in sound condition after a several large deals in recent days. Mediobanca, the Italian investment bank, added to the flow of issuance, raising nearly L1,200bn in a two-tranche issue, jointly led with Goldman Sachs, exchangeable into the shares of Unicredito, the commercial banking group.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Deutsche Bank Finance NV‡	500	(a)	99.746R	Dec 2003	0.15R	-	Deutsche Bank
Vattenfall Treasury AB	250	5.625	99.824R	Dec 2008	0.35R	+96(4¾%Nov08)	Salomon Smith Barney
STERLING							
Safeway plc	200	6.125	98.335	Dec 2018	0.625R	+155(8%15)	CSFB
ITALIAN LIRE							
Mediobanca Int Class A§(b)	605bn	1.50	101.50	Dec 2003	2.50	-	Goldman/Mediobanca
Mediobanca Int Class B§(c)	580bn	0.00	101.50	Dec 2001	2.50	-	Goldman/Mediobanca
EUROS(e)							
EIB	1bn	4.00(s)	98.905R	Apr 2009	0.15R	+8(4%Apr09)	Paribas
BNG	1bn	4.25(l)	98.30R	Jan 2009	0.325R	+29(i)	ABN Amro/Goldman/WDR

Final terms, non-callable unless stated. Yield spread (over relevant govt bond) at launch supplied by lead manager. §Convertible.‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth libor +6.25bp. b) Exchange premium 20%. Redeemed at par or 1,902 shares of UniCredito Italiano per L20m bond. Callable Dec 01 subject to 120% hurdle. c)Exchange premium 15%. Redeemed at par or 1,985 shares of UniCredito Italiano per L20m bond. e) Payment in Ecu prior to Emu. Spread to French govt Ecu bonds. i) Over interpolated yield. l) Long 1st coupon. s) Short 1st coupon

Sovereign issuers seek guarantees

By Khozem Marchant

A growing number of Asian sovereign borrowers are applying for supranational and developed country guarantees as a more cost-effective route to the global debt markets, which have become increasingly expensive in the past 18 months.

This week it emerged that Japan's Ministry of Trade and Industry is to guarantee a Y70bn bond for Thailand. It would be Miti's second guarantee of a proposed bond issue by a south-east Asian casualty of the regional financial crisis.

The Asian crisis followed by the Russian debt default in August provoked fears of a global financial contraction and sidelined emerging market borrowers as the cost of borrowing soared.

Guarantees by supranationals such as the World Bank effectively enhance the credit rating on the offering, enabling borrowers to piggy-back on the supranationals' Triple A credit ratings.

This makes borrowing more affordable for emerging market sovereigns desperate to raise financing to service rising budget deficits, resume work on infrastructure projects and overhaul heavily indebted domestic banking systems.

The World Bank set the pace in September with a guarantee for a $300m bond for state-owned Electricity Generating Authority of Thailand.

In October, Malaysia, whose introduction of capital controls effectively cut it off from global markets, said a proposed $1bn bond would be guaranteed by Miti.

Thailand's proposed Y70bn bond, possibly of 10-year maturity and lead-managed by Citicorp, is likely to be launched in January.

Miti's guarantee of the bond is part of the Miyazawa Plan, which is designed to help distressed south-east Asian economies.

The Asian Development Bank said it was negotiating financing for India and the Philippines' state-owned power company that would be guaranteed by the multilateral bank.

The ADB said guarantees are the most effective way for emerging markets to access international capital markets.

"Asian sovereign borrowers want long-term financing for infrastructure. They cannot get that sort of maturity from the markets. It is our role to provide guarantees," said W. C. Chung at ADB's office of co-financing operations. He added that since the regional crisis there had "been strong demand for guarantees".

For India, the ADB is negotiating a 15-year $100m financing, which may be either a syndicated loan or a bond but will be guaranteed by the bank. Completion has been delayed because some international sanctions remain in place after India's testing of nuclear bombs last May.

The ADB is also talking to the National Power Corporation about a financing of up to $200m, which would also be guaranteed. The development bank's first guarantee since the Asian crisis was for Thailand's $950m syndicated loan, which was launched in February.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Dec 2	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.5456	4.44	-0.14	-0.23	+0.11	-0.78
	08/08	8.750	129.8582	4.85	-0.19	-0.32	-0.09	-1.38
Austria	07/00	5.875	103.8800	3.34	-0.05	-0.20	-0.27	-1.16
	01/08	5.000	106.3000	4.15	+0.01	-0.10	-0.25	-1.35
Belgium	01/00	4.000	100.7400	3.31	+0.02	-0.13	-0.17	-0.94
	03/08	5.750	111.8800	4.18	-0.01	-0.09	-0.20	-1.38
Canada	12/00	5.000	100.5800	4.89	-0.02	-0.26	+0.03	+0.28
	06/08	6.000	108.3600	4.69	-0.02	-0.30	-0.29	-0.64
Denmark	11/00	9.000	109.2300	3.94	+0.02	+0.02	-0.14	-0.76
	11/07	7.000	119.8800	4.28	-0.04	-0.21	-0.41	-1.62
Finland	01/99	11.000	100.7879	2.82	-	-0.09	-0.24	-1.40
	04/08	6.000	113.9450	4.17	-	-0.12	-0.35	-1.44
France	07/00	4.000	101.0500	3.30	-0.03	-0.07	-0.13	-1.00
	10/05	7.750	124.3700	3.67	-0.01	-0.13	-0.28	-1.48
	10/08	8.500	136.3100	3.98	-0.01	-0.14	-0.30	-1.43
	04/29	5.500	110.1900	4.85	-0.01	-0.12	-0.38	-1.10
Germany	06/00	4.000	100.9900	3.31	+0.01	-0.03	-0.14	-0.91
	10/05	6.500	116.0300	3.80	-0.03	-0.11	-0.29	-1.39
	07/08	4.750	108.5600	3.91	-0.02	-0.13	-0.27	-1.50
	01/28	5.625	111.8300	4.86	-0.01	-0.13	-0.38	-1.13
Ireland	10/01	6.500	108.0600	3.50	+0.01	-0.07	-0.22	-1.66
	08/08	6.000	114.4300	4.16	-0.01	-0.14	-0.29	-1.62
Italy	04/01	4.500	102.3700	3.43	-	-0.13	-0.25	-1.66
	07/03	4.500	103.6300	3.64	-	-0.12	-0.32	-1.74
	05/08	5.000	105.5800	4.34	+0.01	-0.13	-0.34	-1.66
	11/27	6.500	121.5700	5.06	-0.01	-0.13	-0.36	-1.22
Japan	12/00	6.900	113.1180	0.41	+0.03	+0.12	+0.09	-0.02
	12/03	4.100	115.9990	0.86	+0.05	+0.17	+0.20	-0.42
	06/08	1.900	105.5380	1.18	+0.04	+0.18	+0.32	-0.60
	03/18	2.700	111.8720	1.96	+0.08	+0.28	+0.48	-0.68
Netherlands	05/00	9.000	107.8000	3.31	-0.03	-0.10	-0.17	-1.00
	07/08	5.250	109.6300	4.02	-0.04	-0.10	-0.24	-1.37
New Zealand	02/01	8.000	106.2467	4.98	-0.08	-0.07	-0.29	-2.06
	07/09	7.000	112.6181	5.42	-0.08	-0.17	-0.04	-1.28
Norway	01/99	9.000	100.0500	8.03	+0.05	+0.15	+0.20	+3.65
	01/07	6.750	108.9200	5.36	+0.06	+0.05	-0.18	-0.19
Portugal	03/00	5.375	102.3600	3.46	-0.02	-0.10	-0.15	-1.38
	08/08	5.375	108.5800	4.36	-	-0.10	-0.25	-1.53
Spain	04/00	6.750	104.4000	3.34	+0.04	-0.04	-0.15	-1.30
	01/08	6.000	113.3600	4.21	-	-0.11	-0.32	-1.50
Sweden	05/00	10.250	108.8680	3.63	-0.01	-0.13	-0.33	-1.55
	05/08	6.500	116.9570	4.27	-0.02	-0.20	-0.37	-1.90
Switzerland	06/00	4.500	104.3500	1.54	+0.04	+0.02	+0.25	-0.23
	01/08	4.250	115.3000	2.36	-	-0.05	-0.31	-1.15
UK	11/01	7.000	105.5000	4.98	-0.04	-0.19	-0.24	-2.12
	12/03	6.500	108.2900	4.63	-0.04	-0.18	-0.30	-1.97
	10/08	9.000	134.3500	4.62	-0.02	-0.19	-0.48	-1.85
	12/28	6.000	135.8600	4.38	+0.01	-0.21	-0.47	-1.99
US	09/00	4.500	100.1317	4.42	-0.06	-0.26	+0.06	-1.37
	08/03	5.250	103.5995	4.39	-0.09	-0.30	+0.01	-1.45
	05/08	5.625	107.3740	4.65	-0.06	-0.22	-0.11	-1.20
	08/28	5.500	108.0761	5.10	-0.02	-0.14	-0.13	-0.97
ECU	07/00	4.000	101.0000	3.34	-	-0.06	-0.17	-1.29
	04/08	5.250	109.6500	3.99	-0.01	-0.14	-0.32	-1.57

London closing. * New York mid-day. Source: Interactive Data/FT Information

Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Dec 2	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	4.86	+0.97	+0.27	New Zealand	5.43	+1.54	+0.84
Austria	4.13	+0.24	-0.46	Norway	5.39	+1.50	+0.80
Belgium	4.23	+0.34	-0.36	Portugal	4.27	+0.38	-0.32
Canada	4.90	+1.01	+0.31	Spain	4.33	+0.44	-0.26
Denmark	4.25	+0.36	-0.34	Sweden	4.29	+0.40	-0.30
Finland	4.21	+0.32	-0.38	Switzerland	2.45	-1.44	-2.14
France	3.98	+0.09	-0.61	UK	4.64	+0.75	+0.05
Germany	3.89	-	-0.70	US	4.59	+0.70	-
Ireland	4.18	+0.29	-0.41	ECU	4.07	+0.18	-0.52
Italy	4.23	+0.34	-0.36				
Japan	1.20	-2.69	-3.39				
Netherlands	4.01	+0.12	-0.58				

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis

EMERGING MARKET BONDS

Dec 2	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	89.7132	10.86	+0.11	-1.88	+6.57
Poland	07/04	7.125	BBB-	103.3005	6.39	+0.03	+0.14	+2.01
Russia	06/07	10.000	CCC-	27.1250	41.43	-0.47	-2.73	+36.89
LATIN AMERICA								
Argentina	09/27	9.750	BB	88.3120	11.10	-0.01	+0.08	+6.10
Brazil	05/27	10.125	BB-	71.7500	14.22	+0.29	-0.36	+9.22
Mexico	05/26	11.500	BB	104.5000	10.98	+0.11	+0.04	+6.00
ASIA								
China	07/06	7.750	BBB+	103.4708	7.13	-0.04	+0.80	+2.64
Philippines	10/16	8.750	BB+	92.0708	9.69	+0.11	-0.53	+4.93
Thailand	04/07	7.750	BBB-	98.0200	8.42	-0.23	-0.99	+3.88
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.6240	7.32	-0.11	+0.14	+2.94
South Africa	10/06	8.375	BB+	87.4285	10.82	+0.11	+0.32	+6.33
Turkey	09/07	10.000	B	93.5000	11.18	-0.20	-1.74	+6.64
BRADY BONDS								
Argentina	03/23	5.750	BB	72.1250	8.79	+0.04	-0.22	+3.88
Brazil	04/14	5.000	BB-	63.6250	13.04	+0.13	-0.18	+8.32
Mexico	12/19	6.250	BB	76.5155	8.70	-0.02	-0.08	+3.87
Venezuela	03/20	6.750	B+	60.4857	11.88	+0.11	+1.31	+7.03

London closing. Prices in US$.
Standard & Poor's ratings.

Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	108.25	111.27	-0.06	111.40	110.94	50,910	69,389

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	CALLS Mar	CALLS -	PUTS Jan	PUTS Mar	PUTS -
108	2.73	2.99	-	0.02	0.30	-
109	1.80	2.19	-	0.08	0.49	-
110	0.96	1.49	-	0.24	0.78	-
111	0.41	0.95	-	0.69	1.22	-

Est. vol. total, Calls 630 Puts - . Previous day's open int., Calls n/a Puts n/a .

Germany

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	114.58	114.89	+0.35	114.98	114.46	309,862	444,327
Mar	115.01	115.57	+0.46	115.64	115.01	64,185	115,622

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
11500	0.77	1.06	1.29	0.36	0.65	0.88
11550	0.50	0.80	1.03	0.59	0.89	1.12
11600	0.30	0.58	0.81	0.89	1.17	1.40

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

NOTIONAL GERMAN BOND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	108.58	108.78	+0.24	108.84	108.41	99,105	194,538
Mar	108.77	108.88	+0.31	108.91	108.51	25,153	64,145

NOTIONAL LFB SWAP FUTURES (LIFFE)* 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	100.96	+0.09	-	-	0	1040
Mar	-	100.70	+0.09	-	-	0	0

NOTIONAL LFB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	100.65	101.02	+0.25	101.01	100.65	265	1459
Mar	-	100.67	+0.25	-	-	0	0

Also traded on APT. All Open interest figs. are for previous day

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	112.50	112.54	-0.03	112.67	112.22	37054	33534
Mar	112.66	112.98	+0.10	113.27	112.57	22682	22309

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jan	CALLS Feb	PUTS Jan	PUTS Feb
11250	0.68	0.95	0.20	0.47
11300	0.39	0.68	0.41	0.70
11350	0.19	0.46	0.71	0.98

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 5060

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	116.37	116.45	+0.01	116.52	116.22	40,487	51,368
Mar	115.69	115.70	+0.01	115.70	115.69	129	111

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	108.75	108.92	+0.23	108.75	108.75	20	325
Mar	-	109.12	+0.23	-	-	0	76

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	117.20	117.33	+0.02	117.55	117.00	2320	11790
Mar	117.34	117.45	+0.03	117.68	117.10	33251	108816

* LIFFE futures also traded on APT. All Open interest figs. are for previous day

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
11700	1.00	1.41	1.74	0.55	0.96	1.29
11750	0.73	1.15	1.46	0.78	1.20	1.53
11800	0.52	0.92	1.25	1.07	1.47	1.80

Est. vol. total, Calls 320 Puts 500. Previous day's open int., Calls 3408 Puts 2787

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	130-06	130-14	+0-08	130-15	130-01	69,239	223,644
Mar	129-28	130-06	+0-09	130-06	129-25	393,643	517,213
Jun	-	129-13	-	-	-	129-05	846	4,278

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	136.12	136.22	-	136.26	136.01	3500	n/a
Mar	135.16	135.33	-	135.36	135.10	2423	n/a

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	108.25	108.65	+0.05	108.65	108.25	172	248

US CORPORATE BONDS

Dec 1	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	106.6138	5.19	-0.10	-0.07	+0.76
NY Tel	08/03	7.00	A+	103.6409	6.51	-0.06	-0.36	+2.08
CWE	05/08	8.00	BBB	115.0789	5.69	-0.07	-0.17	+1.23
FINANCIALS								
GECC	05/07	8.75	AAA	121.2278	5.56	-0.08	+0.02	+0.90
Banc One	08/02	7.25	A	108.2742	5.33	-0.10	-0.16	+0.90
CNA Fin	01/18	6.95	A-	95.3139	7.41	-0.01	+0.14	+2.36
INDUSTRIALS								
WMX Tech	04/08	6.25	BBB+	100.1087	5.84	-0.02	+0.11	+1.56
Wal Mart	05/02	6.75	AA	105.9050	4.86	-0.10	-0.09	+0.43
Dayton Hud	06/21	9.70	A-	138.8150	6.55	-0.01	-0.38	+1.50
AGENCIES								
FHLMC	04/07	7.14	N/A	113.0777	5.19	-0.07	-0.10	+0.53
SLMA	03/00	7.50	N/A	103.1091	4.92	-0.06	+0.05	+0.48
FNMA	02/18	8.95	N/A	141.1001	5.46	-0.01	-0.32	+0.41
FFCB	06/06	8.95	N/A	123.1145	5.18	-0.02	-0.03	+0.52
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.2500	0.00	-	-	-
AK Stl	12/01	9.13	BB-	105.7500	0.00	-	-	-
Pacalta	06/04	10.75	B-	85.0000	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest

Prime rate	7¾
Broker loan rate	6½
Fed.funds	4¾
Fed.funds at intervention	-

Treasury Bills and Bond Yields

One month	-	Two year	4.38
Two month	-	Three year	4.36
Three month	4.48	Five year	4.31
Six month	4.48	10-year	4.56
One year	4.40	30-year	5.02

INTERNATIONAL BONDS

Dec 2	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	110.9000	4.15	+0.01	-0.23	+0.21
Spain	01/07	5.750	AA	110.5643	4.18	-0.05	-0.24	+0.24
Philip Morris	03/04	5.375	A	104.7070	4.35	+0.02	-0.24	+0.64
Finland FRN	09/02	3.531	AA	100.5239	2.87	-0.02	-0.28	-0.59
EURO FFR								
Austria	01/04	5.500	AAA	108.0200	3.75	-0.03	-0.24	+0.16
Abbey Nat	02/04	6.000	AA	109.9400	3.85	-0.01	-0.25	+0.26
Cred Foncier	02/04	9.125	A	123.1000	4.10	-0.03	-0.24	+0.51
3CIF FRN	12/01	3.617	AA-	99.8891	3.29	-0.02	-0.23	-0.08
EURO LIRA								
EIB	02/07	7.000	AAA	118.8890	4.22	-	-0.20	+0.09
Abbey Nat	02/02	6.800	AA	109.0300	3.75	-	-0.22	+0.15
Walt Disney	06/00	8.625	A	107.0300	3.81	-	-0.22	+0.34
EIB FRN	03/01	4.743	AAA	100.0227	3.28	-0.01	-0.23	-0.21
EURO £								
EIB	12/07	7.625	AAA	116.0600	5.33	+0.09	-0.34	+0.72
Dresdner Bk	12/07	7.750	AA-	108.8126	6.43	+0.01	-0.48	+1.82
British Gas	03/00	7.625	A+	101.7848	6.13	-0.04	-0.26	+0.94
Abbey Nat FRN	02/02	7.136	AA	100.1431	4.89	-0.01	-0.22	+0.13
EURO $								
EIB	04/07	7.250	AAA	114.0334	5.14	-0.09	-0.17	+0.60
ABN Amro	08/07	7.125	AA-	105.6664	6.24	-0.08	-0.06	+1.70
Quebec	01/07	7.000	A+	108.9124	5.62	-0.09	-0.09	+1.08
Citicorp FRN	02/04	5.312	A+	95.3319	6.37	-0.07	-0.07	+1.99
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	120.2576	5.27	-0.01	-0.19	+0.18
Toronto	05/04	8.500	AA+	115.2620	5.21	-0.01	-0.19	+0.12
Bell Canada	07/99	10.625	A+	103.0947	5.14	-0.04	+0.07	+0.96
Deutsche B FRN	09/02	5.875	AA+	101.8674	5.32	-0.03	-0.09	+0.30
EURO YEN								
World Bank	03/02	5.250	AAA	115.4896	0.49	-0.02	+0.10	-0.23
Spain	03/02	5.750	AA	116.9637	0.54	-0.03	+0.08	-0.18
Cred Foncier	08/02	4.750	A	113.0216	1.11	+0.04	+0.18	+0.39
Italy FRN	07/99	0.461	AA	100.0604	0.24	-0.04	+0.24	-0.03

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Government Securities

Price Indices UK Gilts	Wed Dec 2	Day's chge %	Accrued interest	xd adj ytd	Total Return	Duration Years	Duration Yield	% Weight
1 Up to 5 years (17)	120.97	0.09	1.36	10.16	1184.69	2.36	5.01	32.58
2 5-10 years (12)	169.30	0.09	0.92	11.35	1315.94	5.90	4.68	31.14
3 10-15 years (7)	184.67	-0.02	2.30	10.43	1434.63	8.79	4.65	13.44
4 5-15 years (19)	173.76	0.06	1.31	11.12	1349.70	6.83	4.67	44.58
5 Over 15 years (4)	229.14	-0.28	0.56	13.27	1557.59	11.88	4.58	22.08
6 Irredeemables (4)	318.05	-0.21	1.25	14.66	1840.87	22.72	4.71	0.76
7 All stocks (44)	164.93	-0.01	1.25	11.39	1334.94	6.94	4.67	100.00

Yield indices	Dec 2	Dec 1	Yr ago	Yield indices	Dec 2	Dec 1	Yr ago
5 yrs	4.76	4.79	6.76	Irred †	4.71	4.70	6.51
10 yrs	4.65	4.66	6.51	Med. 15 yrs	4.64	4.62	6.43
15 yrs	4.62	4.60	6.43	High 15 yrs	4.71	4.70	6.52
20 yrs	4.59	4.57	6.40				

Coupon Bands: Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

UK Indices

Index-linked	Wed Dec 2	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	225.93	0.07	0.60	5.92	1176.65	15.65
2 Over 5 years (9)	250.03	0.20	1.83	5.96	1354.14	84.35
3 5-15 years (5)	235.56	0.17	1.36	5.34	1270.14	43.41
4 Over 15 years (4)	262.90	0.23	1.92	6.41	1429.33	40.93
5 All stocks (11)	245.45	0.18	1.45	5.93	1330.72	100.00

Real yield	Inflation 0% Dec 2	Inflation 0% Dur yrs	Inflation 0% Dec 1	Inflation 0% Yr ago	Inflation 5% Dec 2	Inflation 5% Dur yrs	Inflation 5% Dec 1	Inflation 5% Yr ago
Up to 5 yrs	2.97	3.51	2.99	3.92	2.21	3.53	2.22	3.17
Over 5 yrs	2.38	13.06	2.40	3.29	2.18	13.16	2.20	3.07
5-15 yrs	2.46	9.87	2.48	3.40	2.19	9.92	2.20	3.09
Over 15 yrs	2.34	16.65	2.35	3.24	2.18	16.75	2.19	3.07
All Stocks	2.41	11.47	2.43	3.30	2.18	11.60	2.20	3.08

FT Fixed Interest Indices

	2 Dec	1 Dec	30 Nov	27 Nov	26 Nov	Yr ago	High*	Low*
Govt. Secs. (UK)	114.24	114.27	113.94	113.28	113.55	100.28	112.59	93.31

	2 Dec	1 Dec	30 Nov	27 Nov	26 Nov	Yr ago	High*	Low*
Fixed Interest	153.79	153.61	153.41	153.39	152.34	132.57	151.77	115.32

* for 1998. Government Securities high since compilation: 127.40 (1/8/35), low 49.18 (1/3/75). Fixed Interest high since compilation: 151.02 (9/18/98), low 50.33 (1/3/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas 9½pc 1999		9.47	6.55	100.3287	-.0077	102.63	100.33
Treas Flg Rate 1999		-	-	100.0439	+.0008	100.27	100.02
Exch 12¾pc 1999		12.03	6.17	101.7985	-.0146	106.31	101.80
Treas 10½pc 1999		10.30	6.04	101.9854	-.0059	104.98	101.99
Treas 6pc 1999		6.00	5.91	100.0345	+.0084	100.83	98.38
Conv 10¼pc 1999		9.84	5.80	104.1412	+.0059	106.46	103.62
Treas 8½pc 2000	✤	8.24	5.57	103.1945	+.0199	103.84	101.83
Conv 9pc 2000		8.65	5.58	104.0425	+.0199	105.02	102.66
Treas 13pc 2000		11.66	5.45	111.4619	+.0218	114.83	110.58
Treas 8pc 2000		7.60	5.36	105.2905xd	+.0391	105.66	102.22
Treas Flg Rate 2001		-	-	100.8034	-.0024	100.82	100.17
Treas 10pc 2001		9.11	5.37	109.8215	+.0603	110.32	107.11
Conv 9½pc 2001	✤	8.82	5.29	110.1485	+.0603	110.42	106.73
Conv 9¾pc 2001	✤	8.78	5.29	111.0446	+.0603	111.35	107.56
Treas 7pc 2001		6.64	4.95	105.4673	+.0854	105.58	100.40
Exch 12pc 1999-2	✤	11.92	6.89	100.6250	-.0150	104.84	100.01
Conv 10pc 2002	✤	8.66	4.95	115.4202	+.1278	116.38	110.98
Treas 7pc 2002		6.55	4.84	106.8674xd	+.1120	107.14	100.91
Conv 9½pc 2002	✤	8.29	4.96	114.5522	+.1278	115.38	108.76
Treas 9¾pc 2002		8.40	4.95	116.1312	+.1278	116.92	111.10
Exch 9pc 2002	✤	7.87	4.96	114.3502	+.1278	114.96	108.87
Conv 9¾pc 2003	✤	8.21	4.97	118.7752	+.1278	119.33	112.78
Treas 8pc 2003		7.08	4.74	113.0518	+.1234	113.65	105.76
Treas 10pc 2003		8.21	4.89	121.8258	+.1394	122.74	115.24
Treas 13¾pc 2000-3	✤	12.19	5.46	112.8288	+.0218	116.71	112.14
Five to Fifteen Years							
Treas 6½pc 2003		6.00	4.62	108.2730xd	+.1378	108.55	100.50
Treas 11½pc 2001-4		10.19	6.39	113.1379	+.0598	114.41	110.80
Treas 10pc 2004	✤	8.03	4.82	124.5889	+.1394	125.21	116.73
Funding 3½pc 1999-4		3.56	3.74	98.2740	-.1167	98.98	89.04
Conv 9½pc 2004		7.67	4.79	123.8855	+.1468	124.56	115.27
Treas 6¾pc 2004		6.00	4.64	110.8361	+.1201	111.19	100.57
Conv 9½pc 2005		7.56	4.79	125.5896	+.0949	128.15	116.11
Exch 10½pc 2005	✤	7.91	4.79	132.7346	+.0949	133.25	122.83
Treas 12½pc 2003-5		9.34	4.75	133.8220	+.1608	134.90	127.40
Treas 8½pc 2005		6.95	4.71	122.3882xd	+.0863	122.83	111.51
Conv 9¾pc 2006	✤	7.33	4.72	133.0072	+.0686	134.01	121.03
Treas 7½pc 2006		6.33	4.71	118.4249xd	+.1023	119.08	106.72
Treas 7¾pc 2006		6.48	4.74	119.3463	+.1083	119.98	107.42
Treas 8pc 2002-6		7.24	4.85	110.5102	+.1631	110.98	104.61
Treas 11¾pc 2003-7	✤	9.40	4.96	125.0802	+.1278	125.92	119.81
Treas 8½pc 2007		6.72	4.73	126.4772	+.0886	127.25	113.32
Treas 7¼pc 2007		6.08	4.61	119.2892xd	+.0475	120.28	105.22
Treas 13½pc 2004-8	✤	9.62	4.80	140.3895	+.1468	141.61	133.46
Treas 9pc 2008		6.70	4.63	134.2539	+.0845	135.17	119.31
Treas 8pc 2009		6.21	4.55	128.7360	-.1323	129.46	112.01
Treas 5¾pc 2009		5.19	4.50	110.7328xd	+.0172	110.93	98.36
Treas 6¼pc 2010		5.45	4.64	114.7221	+.0082	115.56	97.43
Conv 9pc Ln 2011		6.40	4.89	140.7109	-.0140	141.85	121.71
Treas 9pc 2012		6.29	4.70	143.0208	-.0413	144.30	122.63
Treas 5½pc 2008-12		5.06	4.44	108.3879	+.0292	109.14	91.35
Treas 8pc 2013		5.83	4.70	134.8555	-.1415	138.43	114.00
Treas 7¾pc 2012-15		5.99	4.74	129.3249	-.0629	130.50	110.47
Over Fifteen Years							
Treas 8pc 2015		5.74	4.62	139.4636xd	-.2517	141.24	115.81
Treas 8¾pc 2017		5.79	4.63	151.1850	-.3714	153.14	124.41
Exch 12pc 2013-17	✤	6.74	4.68	178.1209	-.8140	178.60	153.61
Treas 8pc 2021		5.39	4.54	148.3179xd	-.5088	150.23	118.49
Treas 6pc 2028		4.75	4.39	126.4210xd	-.7037	129.81	99.88
Undated							
Consols 4pc		4.85	-	82.5374	-.1087	82.66	59.02
War Loan 3½pc		4.67	-	74.9878xd	-.1604	77.19	53.51
Conv 3½pc '61 Aft		3.80	-	91.9878	-.1604	94.19	68.81
Treas 3pc '66 Aft		5.12	-	58.5939	—	59.85	42.98
Consols 2½pc		4.66	-	53.5839	—	54.05	37.98
Treas. 2½pc		4.81	-	52.0220	-.3882	53.84	37.37

Index-Linked	Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
Index-Linked (b)							
2½pc '99	✤	0.60	1.71	197.4869	+.0990	197.99	187.24
2½pc '01	(78.3)	2.29	2.69	205.7048	+.0990	205.70	193.45
2½pc '03	(78.8)	2.19	2.44	208.2261	+.1603	208.23	190.75
4⅝pc '04	(135.6)	2.12	2.32	132.8178	+.1114	132.82	123.27
2pc '06	(69.5)	2.14	2.29	228.5012	+.3174	228.59	204.23
2½pc '09	(78.8)	2.18	2.30	209.5962	+.2879	209.60	185.71
2½pc '11	(74.6)	2.22	2.32	221.7527	+.3747	221.75	194.11
2½pc '13	(89.2)	2.23	2.32	185.8469	+.3869	185.85	161.30
2½pc '16	(81.6)	2.21	2.29	204.6129	+.3736	204.61	174.13
2½pc '20	(83.0)	2.21	2.27	202.9385	+.4373	202.93	168.84
2½pc '24	(97.7)	2.17	2.22	174.9500	+.4178	174.95	141.65
4⅛pc '30	(135.1)	2.13	2.19	173.0553	+.5553	173.06	139.06

Prospective real redemption rate on projected inflation of (1) 5% and (2) 3%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for March 1998: 160.8 and for October 1998: 164.5.

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Asian Dev 10¼pc 2009		7.54	5.62	135⅞	—	137½	128⅞
B'ham 11½pc 2012		7.67	6.30	150	—	154½	137½
Leeds 13½pc 2006		9.29	-	145½	—	148½	139½
Liverpool 3½pc Irred		5.93	-	59	—	64	49
LCC 3pc '20 Aft		6.00	-	50xd	—	56	42
Manchester 11½pc 2007		8.27	5.90	139	—	148½	130½
Met. Wtr. 3pc 'B'		3.41	5.85	88	—	90	85
N'wide Anglia 3⅝pc IL 2021		-	3.14	186⅞	—	187⅞	172¼
4⅝pc IL 2024		-	3.15	176⅞	—	187⅞	158⅞

● "Tap" stock. All UK Gilts are tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. ✤ Indicative price

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Dollar sags further against D-Mark

MARKETS REPORT

By Alan Beattie

Fresh falls in the equity markets continued to drag the dollar lower yesterday, with particular attention focusing on its performance against the D-Mark.

The dollar started weakening in early European trading. And when the opening of US markets saw renewed declines in equity prices, the US currency fell further against sterling and the yen as well as the D-Mark.

Fresh rumours that Brazil would devalue, or at least widen the bands of the real's crawling peg, also helped to put downward pressure on the dollar.

The US currency finished London trading down against the D-Mark at DM1.673.

Against sterling it finished lower at $1.661, and against the yen it closed down at Y120.5.

■ The D-Mark's strength against the dollar came despite increasing speculation that the European Central Bank on 22 December might set a starting repo rate for the euro of 3 per cent, lower than the 3.3 per cent level on which the euro-participant countries are converging.

"The mood music coming from the ECB in the past couple of days suggests that they are more likely to cut early in 1999 if not before," said Alison Cottrell, chief international economist at Paine Webber in London.

"But the dollar started off from such a high level recently, around DM1.70, that any shocks from the equity market side are likely to knock it down," she said.

■ POUND IN NEW YORK

Dec 2	—Latest—	—Prev. close—
£ spot	1.6620	1.6540
1 mth	1.6602	1.6521
3 mth	1.6561	1.6481
1 yr	1.6444	1.6363

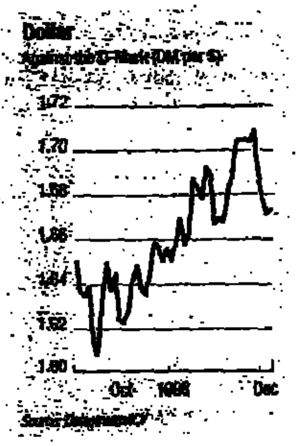
■ The Reserve Bank of Australia cut interest rates by 25 basis points yesterday, somewhat earlier than most had expected, and may have been a little surprised to see the Aussie dollar carry on surging up above $0.63.

The cut was portrayed by the RBA as an attempt to pre-empt the effect on the Australian economy of the global slowdown in growth.

And with the economy continuing to grow strongly, the markets rewarded the RBA with what appeared to be a vote of confidence in their ability so far to insulate Australia from the recession in east Asia.

"Some of the best-performing currencies of the past 6-8 weeks have been those where interest rates were cut," said Nick Parsons, chief currency strategist at Paribas in London.

"But it must be done by an independent and well-respected central bank," he added.



■ The Russian rouble has continued to weaken as the prospect of the Russian government printing money to finance the budget deficit threatens an accelerating depreciation.

Yesterday the rouble fell, closing after the second of the two daily trading sessions at Rbs19.1, down from Rbs18.6 on Tuesday.

Recent money supply data showing a 16 per cent increase in cash in circulation in October are likely to undermine the efforts of Viktor Geraschenko, the chairman of the central bank, to persuade market analysts that the money supply is under control.

But those with long memories will recall that Mr Geraschenko's previous tenure at the central bank four years ago ended ignominiously after inflation got out of control and the rouble collapsed.

This track record seems unlikely to impress the International Monetary Fund. Michel Camdessus, the IMF's managing director, has started talks with the Russian government with the eventual aim of unfreezing the $22.5bn IMF-led aid package.

And with the draft budget promising cuts in sales tax and rises in social welfare spending, the temptation to monetise the public debt is increasing.

"Devaluation and inflation seem to be an inevitable and even necessary part of the fiscal and balance of payment adjustments that need to be made," said Arnab Das, analyst with J.P. Morgan in London.

Mr Das said that expanding the money supply to help close the fiscal deficit might be a new development in Russian monetary policy.

"So far, direct money financing has mainly been used to inject liquidity into the banking system," said Mr Das.

"The next step could be to print money directly to help finance the budget deficit."

■ OTHER CURRENCIES

Dec 2	£	$
Czech Rp	50.2833 - 50.3767	30.2820 - 30.3200
Hungary	362.769 - 363.304	218.470 - 218.669
Iran	4984.50 - 4981.50	3000.00 - 3000.00
Kuwait	0.5023 - 0.5034	0.3025 - 0.3030
Peru	5.2057 - 5.2138	3.1350 - 3.1380
Poland	5.7744 - 5.7862	3.4775 - 3.4825
Russia	31.7156 - 32.0670	19.1000 - 19.3000
U.A.E.	6.0987 - 6.1029	3.6728 - 3.6731

WORLD INTEREST RATES

MONEY RATES

Dec 2	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3½	3⅞	3¼	3¼	3⅜	6.00	2.75	–
France	3½	3⅜	3¼	3⅜	3¼	4.60	–	3.30
Germany	3½	3½	3⅝	3⅝	3⅜	4.50	2.50	3.30
Ireland	4	3⅞	3¾	3⅝	3⅝	–	–	3.60
Italy	3¼	3½	3⅜	3⅜	3⅜	5.50	4.00	4.08
Netherlands	3¼	3½	3⅜	3⅜	3⅜	–	2.75	3.30
Switzerland	1¼	1⅛	1⅛	1⅛	1⅛	–	1.00	–
US	4¾	5¼	5¼	5⅛	5¼	–	4.50	–
Japan	¼	½	¼	¼	½	–	0.50	–
■ $ LIBOR BBA London								
Interbank Fixing	–	5⅛	5⅛	5⅛	5⅛	–	–	–
US Dollar CDs	–	5.16	4.95	4.88	4.85	–	–	–
ECU Linked Ds	–	4	3⅞	3⅞	3¾	–	–	–
SDR Linked Ds	–	3⅞	3¾	3⅝	3⅝	–	–	–

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 2	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3¼ - 3¼	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3½ - 3⅜
Danish Krone	4⅜ - 4⅛	4½ - 4⅜	4½ - 4⅜	4⅝ - 4½	4⅜ - 4¼	4¼ - 3⅞
German Mark	3½ - 3⅜	3⅜ - 3¼	3⅜ - 3¼	3⅝ - 3½	3⅝ - 3½	3⅜ - 3¼
Dutch Guilder	3½ - 3¼	3½ - 3⅜	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3¼ - 3⅛
French Franc	3⅛ - 3⅜	3⅜ - 3¼	3⅜ - 3⅝	3⅜ - 3⅜	3⅜ - 3¼	3⅛ - 3⅛
Portuguese Esc.	4⅛ - 3⅞	4⅛ - 3⅞	3⅞ - 3⅞	3⅞ - 3¾	3⅝ - 3½	3⅜ - 3¼
Spanish Peseta	3½ - 3¼	3½ - 3⅜	3⅜ - 3⅜	3⅜ - 3⅜	3⅜ - 3⅜	3⅜ - 3⅜
Sterling	7¼ - 6¼	6⅞ - 6⅞	7 - 6⅞	6⅞ - 6⅞	6⅝ - 6⅝	6⅛ - 6⅛
Swiss Franc	1¼ - 1	1¼ - 1⅛	1⅜ - 1⅛	1⅜ - 1⅛	1⅜ - 1¼	1⅜ - 1¼
Canadian Dollar	5 - 4¾	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞	4⅞ - 4⅝	4⅞ - 4⅝
US Dollar	4¾ - 4½	4⅞ - 4¾	5⅛ - 5⅛	5¼ - 5⅛	5⅛ - 5⅛	5¼ - 5⅛
Italian Lira	3⅞ - 3⅝	3⅞ - 3⅝	3⅞ - 3⅞	3⅞ - 3¾	3⅝ - 3½	3⅜ - 3⅜
Japanese Yen	¼ - ⅛	½ - ⅜	½ - ⅜	½ - ⅜	½ - ⅜	½ - ⅜
Asian $Sing	⅝ - ½	2 - 1	1¾ - 1½	2 - 1¾	3 - 2½	2⅞ - 2⅝

Short term rates are call for the US Dollar and Yen, others: two days' notice

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.475	96.485	-0.015	96.490	96.475	3,876	53,081
Mar	96.745	96.815	+0.005	96.815	96.725	2,886	42,874

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.415	96.420	-	96.430	96.405	41800	491037
Mar	96.755	96.760	+0.010	96.770	96.725	60453	513679
Jun	96.810	96.825	+0.010	96.840	96.790	35773	393067
Sep	96.815	96.835	+0.015	96.850	96.800	31867	290179

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	96.315	-	-	-	0	4000

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.390	96.410	+0.010	96.420	96.390	5674	180014
Mar	96.750	96.750	+0.005	96.760	96.720	5182	252120
Jun	96.800	96.820	+0.010	96.820	96.790	827	73631
Sep	96.810	96.825	+0.015	96.830	96.800	462	45515

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.320	98.340	+0.010	98.380	98.300	8976	46945
Mar	98.400	98.430	+0.020	98.450	98.370	13783	58940
Jun	98.350	98.390	+0.030	98.410	98.320	4114	27467
Sep	98.250	98.320	+0.050	98.330	98.230	2256	16585

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	99.35	+0.02	-	-	0	n/a
Mar	-	99.48	+0.01	-	-	0	n/a
Jun	-	99.55	+0.02	-	-	0	n/a

* LIFFE futures also traded on APT

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.365	96.365	-0.005	96.365	96.365	1	9591
Mar	-	96.760	+0.010	-	-	0	6000
Jun	-	96.825	+0.010	-	-	0	2266
Sep	-	96.835	+0.015	-	-	0	1188

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
96375	0.055	–		0.020		
96500	0.010	0.300	0.400	0.100	0.050	0.080
96625	0.005			0.220		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 72857 Puts 79831

POUND SPOT FORWARD AGAINST THE POUND

Dec 2	Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe												
Austria (Sch)	19.5515	+0.0399	409 - 620	19.6124	19.5100	19.4942	3.5	19.3941	3.2	19.0159	2.7	103.6
Belgium (BFr)	57.3261	+0.1261	706 - 816	57.4740	57.2300	57.155	3.6	56.8618	3.2	55.7374	2.8	103.7
Denmark (DKr)	10.5648	+0.0208	575 - 721	10.5896	10.5421	10.5434	2.4	10.4996	2.5	10.3402	2.1	107.7
Finland (FM)	8.4479	+0.0158	412 - 545	8.4750	8.4310	8.4236	3.5	8.3796	3.2	8.2162	2.7	83.1
France (FFr)	9.3186	+0.0194	144 - 227	9.3488	9.2985	9.2912	3.5	9.2425	3.3	9.0591	2.8	107.3
Germany (DM)	2.7788	+0.0058	774 - 802	2.7890	2.7712	2.7706	3.6	2.7565	3.2	2.7019	2.8	105.4
Greece (Dr)	467.256	+0.831	949 - 563	468.885	465.968	469.175	-4.9	472.556	-4.5	484.944	-3.8	62.1
Ireland (I£)	1.1185	+0.0031	162 - 207	1.1217	1.1162	1.1155	3.2	1.1099	3.1	1.0887	2.7	95.8
Italy (L)	2751.53	+6.31	979 - 327	2756.89	2745.40	2743.86	3.3	2728.76	3.2	2676.69	2.7	78.5
Luxembourg (LFr)	57.3261	+0.1261	706 - 816	57.4740	57.2300	57.155	3.6	56.8618	3.2	55.7374	2.8	103.7
Netherlands (Fl)	3.1318	+0.006	300 - 336	3.1412	3.1258	3.1218	3.8	3.1052	3.4	3.0435	2.8	103.3
Norway (NKr)	12.3496	+0.0683	417 - 574	12.3882	12.2806	12.3638	-1.4	12.3832	-1.1	12.3808	-0.3	93.6
Portugal (Es)	285.202	+0.731	075 - 329	285.562	284.477	284.405	3.4	282.903	3.2	277.291	2.8	92.9
Spain (Pta)	236.510	+0.504	356 - 664	237.140	235.930	235.886	3.2	234.724	3.0	230.132	2.7	77.6
Sweden (SKr)	13.4001	+0.0264	919 - 083	13.4858	13.3478	13.3636	3.3	13.3	3.0	13.0635	2.4	78.3
Switzerland (SFr)	2.2767	+0.0032	752 - 782	2.2866	2.2721	2.2658	5.8	2.2468	5.3	2.1758	4.4	108.7
UK (£)	-	-	-	-	-	-	-	-	-	-	-	100.2
Ecu –	1.4168	+0.0027	157 - 179	1.4204	1.4145	1.4132	3.1	1.406	3.0	1.3787	2.7	-
SDR† –	1.190480	-	-	-	-	-	-	-	-	-	-	-
Americas												
Argentina (Peso)	1.6607	+0.0083	602 - 612	1.6634	1.6495	-	-	-	-	-	-	-
Brazil (R$)	1.9941	+0.0088	931 - 951	1.9971	1.9817	-	-	-	-	-	-	-
Canada (C$)	2.5517	+0.0184	505 - 529	2.5559	2.5254	2.5477	1.9	2.5407	1.7	2.5204	1.2	76.0
Mexico (New Peso)	16.5419	-0.0537	286 - 552	16.5785	16.4967	16.9432	-29.1	17.654	-26.9	20.5474	-24.2	-
USA ($)	1.6610	+0.0083	605 - 615	1.6688	1.6496	1.6584	1.9	1.6546	1.5	1.6424	1.1	106.1
Pacific/Middle East/Africa												
Australia (A$)	2.6255	+0.004	236 - 273	2.6346	2.5908	2.6213	1.9	2.6134	1.8	2.5908	1.3	80.2
Hong Kong (HK$)	12.8639	+0.0637	592 - 686	12.8848	12.7795	12.8446	1.8	12.8341	0.9	12.9872	-1.0	-
India (Rs)	70.7254	+0.3617	543 - 965	70.7950	70.2440	70.8785	-2.6	71.5898	-4.9	75.8325	-7.2	-
Indonesia (Rupiah)	12374.48	+20.52	770 - 125	12458.90	12074.20	12736.15	-35.1	13517.59	-37.0	16175.73	-30.7	-
Israel (Shk)	6.9252	+0.0177	148 - 356	6.9571	6.9135	-	-	-	-	-	-	-
Japan (Y)	200.184	-1.313	057 - 310	201.780	199.510	199.049	6.8	196.854	6.7	188.329	5.9	125.9
Malaysia (M$)	6.3118	+0.0315	118 - 118	6.3219	6.2697	-	-	-	-	-	-	-
New Zealand (NZ$)	3.1378	-0.0111	348 - 408	3.1480	3.1175	3.13	3.0	3.1179	2.5	3.0964	1.3	90.6
Philippines (Peso)	64.8621	-0.1717	765 - 477	65.0597	64.6060	65.3308	-8.7	66.303	-8.3	70.2081	-8.2	-
Saudi Arabia (SR)	6.2300	+0.0313	279 - 320	6.2402	6.1884	6.2255	0.9	6.2203	0.6	6.2186	0.2	-
Singapore (S$)	2.7357	+0.0186	340 - 373	2.7433	2.7192	2.7239	5.2	2.7057	4.4	2.6589	2.8	-
South Africa (R)	9.3920	+0.0387	860 - 999	9.4086	9.3180	9.4794	-11.0	9.6474	-10.6	10.4028	-10.8	-
South Korea (Won)	2057.15	+0.36	404 - 026	2062.12	2041.84	-	-	-	-	-	-	-
Taiwan (T$)	53.8530	+0.2551	334 - 725	53.9404	53.4931	53.9096	-1.3	53.8948	-0.3	54.0718	-0.4	-
Thailand (Bt)	59.9206	+0.2085	610 - 802	59.9900	59.4800	59.9177	0.1	60.071	-1.0	61.3845	-2.4	-

† Rates for Dec 1. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 2	Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe												
Austria (Sch)	11.7709	-0.0351	681 - 737	11.8670	11.7630	11.751	2.0	11.7214	1.7	11.5824	1.6	102.8
Belgium (BFr)	34.5130	-0.097	900 - 360	34.7920	34.4900	34.452	2.1	34.3635	1.7	33.978	1.6	103.7
Denmark (DKr)	6.3605	-0.0185	580 - 630	6.4156	6.3545	6.3544	1.1	6.3463	0.9	6.3025	0.9	106.5
Finland (FM)	5.0860	-0.016	835 - 885	5.1280	5.0835	5.0773	2.1	5.0648	1.7	5.0045	1.6	81.5
France (FFr)	5.6102	-0.0165	094 - 110	5.6567	5.6040	5.6006	2.1	5.5862	1.7	5.5207	1.6	106.9
Germany (DM)	1.6730	-0.005	726 - 733	1.6871	1.6710	1.6704	1.9	1.6662	1.6	1.6465	1.6	105.3
Greece (Dr)	281.310	-0.91	210 - 410	283.870	280.890	282.74	-6.1	285.325	-5.7	295.535	-5.0	61.7
Ireland (I£)	1.4851	+0.0034	826 - 876	1.4980	1.4730	1.4874	-1.9	1.4909	-1.5	1.5082	-1.6	-
Italy (L)	1656.55	-4.5	600 - 710	1670.30	1654.90	1654.05	1.8	1649.7	1.7	1630.75	1.6	76.3
Luxembourg (LFr)	34.5130	-0.097	900 - 360	34.7920	34.4900	34.452	2.1	34.3635	1.7	33.978	1.6	103.7
Netherlands (Fl)	1.8855	-0.0058	850 - 860	1.9011	1.8838	1.882	2.3	1.8771	1.8	1.8551	1.6	103.1
Norway (NKr)	7.4350	+0.004	325 - 375	7.4907	7.4068	7.4547	-3.2	7.489	-2.9	7.5737	-1.9	93.1
Portugal (Es)	171.705	-0.42	680 - 730	172.940	171.530	171.423	2.0	170.99	1.7	169.005	1.6	93.3
Spain (Pta)	142.390	-0.41	340 - 440	143.500	142.310	142.155	2.0	141.8	1.7	140.155	1.6	77.2
Sweden (SKr)	8.0675	-0.0245	650 - 700	8.1510	8.0479	8.0534	2.1	8.0335	1.7	7.961	1.3	79.0
Switzerland (SFr)	1.3707	-0.0049	702 - 712	1.3841	1.3680	1.3661	4.0	1.3584	3.6	1.3262	3.2	108.0
UK (£)	1.6610	+0.0083	605 - 615	1.6638	1.6498	1.6592	1.3	1.6551	1.4	1.6433	1.1	99.8
Ecu –	1.1724	+0.0036	718 - 729	1.1732	1.1633	1.174	-1.6	1.1769	-1.5	1.191	-1.6	-
SDR† –	0.72159	-	-	-	-	-	-	-	-	-	-	-
Americas												
Argentina (Peso)	0.9998	-	998 - 998	0.9998	0.9998	-	-	-	-	-	-	-
Brazil (R$)	1.2006	-0.0006	003 - 008	1.2012	1.2002	-	-	-	-	-	-	-
Canada (C$)	1.5363	+0.0035	360 - 365	1.5390	1.5289	1.5355	0.6	1.5353	0.2	1.5339	0.2	76.1
Mexico (New Peso)	9.9590	-0.0825	540 - 640	9.9750	9.9540	10.2515	-35.2	10.754	-31.9	12.759	-28.1	-
USA ($)	-	-	-	-	-	-	-	-	-	-	-	107.9
Pacific/Middle East/Africa												
Australia (A$)	1.5807	-0.0055	800 - 813	1.5860	1.5674	1.5799	0.6	1.5773	0.9	1.5665	0.9	80.3
Hong Kong (HK$)	7.7447	-0.0003	442 - 452	7.7465	7.7440	7.7472	-0.4	7.7612	-0.9	7.9197	-2.3	-
India (Rs)	42.5800	+0.005	500 - 100	42.6170	42.5500	42.75	-4.8	43.2325	-6.1	46.1575	-8.4	-
Indonesia (Rupiah)	7450.00	-25	000 - 000	7560.00	7300.00	7655	-33.0	8050	-32.2	9550	-28.2	-
Israel (Shk)	4.1693	-0.0102	643 - 743	4.1865	4.1540	-	-	-	-	-	-	-
Japan (Y)	120.520	-1.4	480 - 560	122.080	120.400	119.96	5.6	119.015	5.0	114.975	4.6	126.1
Malaysia‡ (M$)	3.8000	-	000 - 000	3.8000	3.8000	-	-	-	-	-	-	-
New Zealand (NZ$)	1.8891	-0.0162	879 - 904	1.9033	1.8868	1.8922	-2.0	1.8976	-1.8	1.9164	-1.4	-
Philippines (Peso)	39.0500	-0.3	500 - 500	39.1500	38.9500	39.377	-10.0	39.974	-9.5	42.6485	-9.2	-
Saudi Arabia (SR)	3.7507	+0.0001	506 - 508	3.7508	3.7505	3.7526	-0.6	3.7592	-0.9	3.7897	-1.0	-
Singapore (S$)	1.6470	+0.003	465 - 475	1.6598	1.6450	1.6424	3.4	1.6348	3.0	1.6167	1.8	-
South Africa (R)	5.6550	-0.005	525 - 575	5.6575	5.6355	5.7125	-12.2	5.82	-11.7	6.32	-11.8	-
South Korea (Won)	1238.50	-6	700 - 000	1241.00	1234.00	-	-	-	-	-	-	-
Taiwan (T$)	32.4220	-0.0085	200 - 240	32.4600	32.3700	32.542	-4.4	32.647	-2.8	32.972	-1.7	-
Thailand (Bt)	36.0750	-0.055	500 - 000	36.1100	36.0200	36.1	-0.8	36.195	-1.3	37.2	-3.1	-

† SDR rate per $ for Dec 1. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 5.43 MYR/USD, a discount of 30% on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 1: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 2	BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium (BFr)	100	18.43	16.26	4.847	1.951	4800	5.463	21.54	497.5	412.6	23.38	3.972	1.744	4.451	2.897	349.2	2.471
Denmark (DKr)	54.26	10	8.820	2.630	1.059	2604	2.964	11.69	270.0	223.9	12.68	2.155	0.947	2.415	1.572	189.5	1.341
France (FFr)	61.52	11.34	10	2.982	1.200	2953	3.361	13.25	306.1	253.8	14.38	2.443	1.073	2.738	1.782	214.8	1.520
Germany (DM)	20.63	3.802	3.353	1	0.402	990.2	1.127	4.444	102.6	85.11	4.822	0.819	0.360	0.918	0.598	72.04	0.510
Ireland (I£)	51.26	9.446	8.332	2.485	1	2460	2.800	11.04	255.0	211.5	11.98	2.036	0.894	2.282	1.485	179.0	1.267
Italy (L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.449	10.37	8.596	0.487	0.083	0.036	0.093	0.060	7.275	0.051
Netherlands (Fl)	18.30	3.373	2.975	0.887	0.357	878.6	1	3.943	91.07	75.52	4.279	0.727	0.319	0.815	0.530	63.92	0.452
Norway (NKr)	46.42	8.555	7.546	2.250	0.906	2228	2.536	10	230.9	191.5	10.85	1.844	0.810	2.066	1.345	162.1	1.147
Portugal (Es)	20.10	3.704	3.267	0.974	0.392	964.8	1.098	4.330	100	82.93	4.698	0.798	0.351	0.895	0.582	70.19	0.497
Spain (Pta)	24.24	4.467	3.940	1.175	0.473	1163	1.324	5.222	120.6	100	5.666	0.963	0.423	1.079	0.702	84.64	0.599
Sweden (SKr)	42.78	7.884	6.954	2.074	0.835	2053	2.337	9.216	212.8	176.5	10	1.699	0.746	1.904	1.240	149.4	1.057
Switzerland (SFr)	25.18	4.640	4.093	1.221	0.491	1209	1.376	5.424	125.3	103.9	5.886	1	0.439	1.121	0.730	87.93	0.622
UK (£)	57.33	10.56	9.319	2.779	1.118	2752	3.132	12.35	285.2	236.5	13.40	2.277	1	2.552	1.661	200.2	1.417
Canada (C$)	22.47	4.140	3.652	1.089	0.438	1078	1.227	4.840	111.8	92.68	5.251	0.892	0.392	1	0.651	78.45	0.555
USA ($)	34.51	6.361	5.610	1.673	0.673	1657	1.886	7.435	171.7	142.4	8.069	1.371	0.602	1.536	1	120.5	0.853
Japan (Y)	28.64	5.278	4.655	1.388	0.559	1375	1.564	6.169	142.5	118.1	6.694	1.137	0.500	1.275	0.830	100	0.708
Ecu –	40.46	7.457	6.577	1.961	0.789	1942	2.211	8.717	201.3	166.9	9.458	1.607	0.706	1.801	1.172	141.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.5944	0.5965	+0.0019	0.5975	0.5931	20,954	90,544
Mar	0.5968	0.5989	+0.0018	0.5997	0.5968	667	2,972
Jun	–	0.6005	+0.0011	0.6005	–	1	1,174

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7254	0.7277	+0.0026	0.7304	0.7233	20,376	44,475
Mar	0.7310	0.7345	+0.0029	0.7361	0.7310	2,619	8,519
Jun	0.7391	0.7410	+0.0036	0.7410	0.7391	1	20

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8159	0.8299	+0.0092	0.8307	0.8192	14,243	72,393
Mar	0.8322	0.8407	+0.0095	0.8413	0.8322	2,107	5,927
Jun	0.8476	0.8476	+0.0068	0.8477	0.8475	8	3,419

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6530	1.6546	+0.0012	1.6570	1.6490	5,347	52,748
Mar	1.6476	1.6494	+0.0016	1.6490	1.6450	1,084	3,020
Jun	–	1.6432	–	–	1.6410	1	1,220

UK INTEREST RATES

LONDON MONEY RATES

Dec 2	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7¾ - 6	7⅛ - 6¾	6⅞ - 6⅝	6⅞ - 6⅝	6⅝ - 6⅜	6¼ - 6⅛
Sterling CDs	-	-	6⅞ - 6⅝	6⅝ - 6⅝	6¾ - 6⅝	6⅜ - 6¼
Treasury Bills	-	-	6⅝ - 6½	6⅜ - 6⅜	-	-
Bank Bills	-	-	6⅝ - 6½	6½ - 6⅜	6⅛ - 6⅛	-
Local authority deps.	6⅝ - 6½	6¾ - 6½	6⅞ - 6⅝	6¾ - 6⅝	6½ - 6⅜	6⅛ - 6⅛
Discount Market deps	6¾ - 6½	6¾ - 6½	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from Nov 5, 1998

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Nov 27. 6.2371pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 30, 1998. Agreed rate for period Dec 26, 1998 to Jan 25, 1999, Scheme III 8.24pc. Reference rate for period Oct 31, 1998 to Nov 30, 1998, Schemes IV & V 6.966pc. Finance House Base Rate 7½pc for Dec 1998.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.290	93.270	-0.020	93.290	93.260	22927	191788
Mar	93.960	94.010	+0.040	94.020	93.940	33538	165175
Jun	94.250	94.340	+0.070	94.360	94.240	23402	152734
Sep	94.370	94.450	+0.060	94.470	94.360	21420	164783
Dec	94.190	94.160	-0.050	94.190	94.140	18543	136670

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
93250	0.075	0.785	1.130	0.055	0.025	0.040
93375	0.040			0.145		
93500	0.020	0.555	0.895	0.250	0.045	0.055
93625	0.010			0.365		
93750	0.005	0.360	0.685	0.485	0.100	0.095
93875	0			0.605		

Est. vol. total, Calls 9213 Puts 11858. Previous day's open int., Calls 581225 Puts 617884

BASE LENDING RATES

	%
Adam & Company	6.75
Allied Irish Bank (GB)	6.75
•Henry Ansbacher	6.75
Banco Bilbao Vizcaya	6.75
Bank of Cyprus	6.75
Bank of Ireland	6.75
Bank of India	6.75
Bank of Scotland	6.75
Barclays Bank	6.75
Brit Bk of Mid East	6.75
•Brown Shipley & Co Ltd	6.75
Citibank NA	6.75
Clydesdale Bank	6.75
The Co-operative Bank	6.75
Coutts & Co	6.75
Cyprus Popular Bank	6.75
Duncan Lawrie	6.75
Exeter Trust Limited	7.75
Financial & Gen Bank	8.00
•Robert Fleming & Co	6.75
Habib Bank AG Zurich	6.75
Heritable & Gen Inv Bk	6.75
C. Hoare & Co	6.75
•SG Hambros Bank & Trust	6.75
Hongkong & Shanghai	6.75
Investec Bank (UK) Ltd	6.75
Julian Hodge Bank	6.75
•Leopold Joseph & Sons	6.75
Lloyds Bank	6.75
Midland Bank	6.75
NatWestminster	6.75
•Rea Brothers	6.75
Royal Bk of Scotland	6.75
Scottish Widows Bank	6.75
•Singer & Friedlander	6.75
Smith & Williamson	6.75
Sun Bank	6.75
TSB	6.75
United Bank of Kuwait	6.75
Unity Trust Bank Plc	6.75
Whiteaway Laidlaw	6.75
Yorkshire Bank	6.75

• Members of London Investment Banking Association

EMS EUROPEAN CURRENCY UNIT RATES

Dec 2	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	337.000	329.172	-0.192	-7.79	7.37	52
Denmark	7.54257	7.43866	+0.00002	-1.38	0.38	9
Ireland	0.796244	0.787546	+0.000143	-1.09	0.08	7
France	6.63186	6.56056	-0.00017	-1.07	0.07	9
Germany	1.97738	1.95647	+0.00002	-1.06	0.06	10
Austria	13.9119	13.7652	+0.0001	-1.05	0.05	8
Belgium	40.7844	40.3565	-0.0017	-1.05	0.05	8
Spain	168.220	166.475	+0.019	-1.04	0.04	7
Italy	1957.61	1937.16	+0.06	-1.04	0.04	8
Finland	6.01125	5.94869	-0.00092	-1.04	0.04	7
Netherlands	2.22799	2.20515	-0.00049	-1.02	0.02	8
Portugal	202.692	200.660	+0.012	-1.00	0.00	7
NON ERM MEMBERS						
UK	0.653644	0.703982	+0.000109	7.70	-8.08	–

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. 16/3/98: Drachma joined ERM & Punt revalued by 3%. Other central rates adjusted. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.650	0.88	1.82	2.30	0.87	1.80	2.45
1.660	0.47	1.42	1.90	1.13	2.31	2.91
1.670	0.25	1.08	1.51	1.88	2.89	-

Previous day's vol., Calls - Puts 18 . Prev. day's open int., Calls 590 Puts 4,604

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
0.590	0.63	1.08	1.34	0.19	0.54	0.74
0.595	0.34	0.80	1.08	0.40	0.76	0.96
0.600	0.19	0.58	0.83	0.71	1.04	1.23

Previous day's vol., Calls 20 Puts 250 . Prev. day's open int., Calls 2,343 Puts 10,320

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.76	94.77	+0.01	94.78	94.74	52,906	416,893
Mar	95.18	95.20	+0.02	95.22	95.16	104,203	496,472
Jun	95.23	95.27	+0.04	95.28	95.19	130,606	401,744

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	95.69	95.69	+0.02	95.69	95.69	52	1,809
Mar	95.99	95.99	+0.04	95.99	95.99	178	650
Jun	–	95.98	–	96.18	–	8	37

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
96375	0.085				0.020			
96500	0.025	0.290	0.295	0.310	0.105	0.020	0.035	0.050
96625	0.010				0.215			
96750	0.005	0.080	0.100	0.135	0.335	0.070	0.080	0.125

Est. vol. total, Calls 53859 Puts 7807. Previous day's open int., Calls 929024 Puts 494063

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
98500	0.015	0.130	0.185	0.175	0.200	0.295
98625	0.005			0.290		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 14284 Puts 5217

COMMODITIES & AGRICULTURE

COTTON US SUBSIDIES HELP GROWERS

World prices fall – but not in Australia

By Stephen Wyatt in Sydney

The world cotton market is under pressure with prices having spiralled lower this past week. The Australian cotton industry, however, is booming, although it is not certain how much longer this will last.

The country's cotton growers are benefiting from the weak Australian dollar, the fact that Australian cotton is priced against US cotton futures, and because US cotton futures themselves have been inflated by the US government's record subsidy regime – aimed at maintaining the competitiveness of US cotton exports.

Australia has, therefore, enjoyed the magical mixture of high levels of production and strong prices.

The country produced a record cotton crop this year of 667,000 tonnes and another bumper crop is said to be in the making for next year. The acres have been planted, the water is available – all that is needed is normal weather.

The Australian Bureau of Agricultural and Resource Economics, the independent government research group, forecasts a record 1999 crop of 700,000 tonnes.

Australian prices have never been so high, in spite of the collapse in world prices on the back of the slump in demand from Asia.

Many Australian growers have sold cotton for 1999 and 2000 for more than A$600 a bale. And the more astute have sold cotton they will produce in 2001 at more than A$510 a bale.

Considering that this is almost double the cash costs of production, there is a swathe of new cotton millionaires.

It is strange that this is happening when other agricultural producers worldwide, such as wheat growers, wool growers or cattle producers, are heading towards bankruptcy.

Cotton is different. No one knows why this is so or how long it will last.

"The Australian cotton market is arguably the most sophisticated agricultural market in the world," said Thomas Mueller, president of Savcot Inc, a US cotton merchant based in Georgia.

Active competition among Australia's cotton merchants – the companies that buy cotton from growers and sell it either domestically or for export – has given rise to a long-dated forward market.

Growers can sell cotton that will be picked in 1999, 2000 and 2001 at the extraordinary prices offered over the past six months.

Even though demand for cotton has all but disappeared in Asia, a failed US cotton crop this year, which is about 30 per cent lower than last, and the US government subsidy regime (even though US cotton is trading at a 15 per cent premium to world cotton prices) have coincided to keep US cotton futures markets artificially high.

However, this is not likely to last much longer. The US$700m allocated to this marketing subsidy should run out in the next two months, according to Gordon Cherry of NSW-based cotton merchants, Dunavant Australia.

That is why US cotton futures have fallen 18 per cent in the past six weeks – and with cotton prices going down, it looks like the party may well be over for Australia's cotton growers.

Oil drifts lower after early gains

By Paul Solman

Crude oil prices began trading slightly stronger yesterday in London, after the weekly report from the American Petroleum Institute showed US stocks had fallen.

However, prices soon began to drift back down, with traders still reflecting on last week's decision by the Organisation of Petroleum Exporting Countries to delay action over global production.

In late trading on London's International Petroleum Exchange, Brent blend for January delivery was $10.15 a barrel, down 7 cents from Tuesday's close.

On the New York Mercantile Exchange, bellwether January crude was $11.09 a barrel around midday, against Tuesday's close of $11.13.

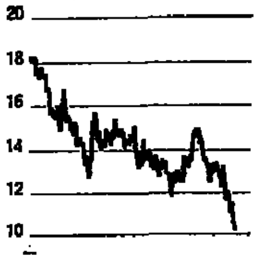
"The situation in the oil markets – with a limited producer response to an environment of very weak prices, still adequate or oversupply, large inventories and weak demand – is a picture repeated across many commodity markets today," Kevin Crisp, J. P. Morgan analyst, pointed out in an energy markets report.

"The CRB index of 17 commodities has fallen over 5 per cent in recent weeks and is again poised around its 21-year low of 195.35, reached in late August," said Mr Crisp.

"Although there are some signs that Asian economies have stabilised, prospects remain strong for a further slowing of the global economy in 1999 or early 2000."

Oil price

Brent crude 2-month forward ($ per barrel)



Source: Datastream/ICV

J. P. Morgan is forecasting that oil demand will rise by barely 1 per cent in 1998 and 1.6 per cent in 1999, down from an average of 2 per cent between 1994 and 1997.

Mr Crisp said the forecast assumed normal weather patterns and temperatures over the winter, and a return to more stable situations in many emerging Asian economies.

Predictions of an unusually cold winter in the northern hemisphere have led many energy analysts to forecast higher oil prices as stocks begin to be depleted.

Lower temperatures at the beginning and the end of the season have been seen as especially crucial to increased energy consumption. However, the weather has remained stubbornly warm in North America over the past few weeks.

In other oil news yesterday, Lehman Brothers cut its oil price outlook for the US oil benchmark West Texas Intermediate from $16 a barrel to $14, citing last week's Opec meeting and its failure to add to the 2.6m barrels a day of production cuts agreed earlier this year.

Meanwhile, base metals drifted downwards on the London Metal Exchange, with copper and lead near to 11½ and 4½-year lows respectively. At the close, three-month copper was $1,560 a tonne against Tuesday's close of $1,582. Lead was down $1.50 at $483 a tonne.

Gold was "fixed" marginally higher at $294.15 an ounce in London yesterday afternoon against the morning fix of $293.90.

Rio Tinto offshoot ventures into iron ore in Orissa

The Anglo-Australian mining group has joined the east Indian state to test the viability of a $1bn project, writes **Kunal Bose**

RTOML, a joint venture between Anglo-Australian mining group Rio Tinto and Orissa Mining Corporation, will spend $18m in the next few years establishing the viability of mining iron ore in the east Indian state of Orissa.

Rio Tinto owns 51 per cent of RTOML and OMC, a state government undertaking, has 49 per cent. Orissa accounts for nearly 33 per cent of India's iron ore reserves of 12.75bn tonnes and the three main steel plants that are planned will be sourcing iron ore from within the state.

OMC has transferred two blocks at Gandhamardan and Malangtoli with deposits of more than 800m tonnes to the joint venture and the pre-feasibility study indicates the existence of high-grade ore.

"Whether we will invest $1bn in building the mining complex in Orissa will depend on the outcome of feasibility studies," said Prakash Shrivastava, project director of RTOML.

"Not many greenfield iron ore projects or substantial expansion of capacities of existing mines are considered anywhere in the world at this time.

"If the project goes through, we will lift the mining of iron ore from 5m tonnes a year to 15m tonnes in four years. Ultimately we will be mining 50m tonnes a year at the Orissa complex. Iron ore is a low value commodity and to make a success of the project we need a world class infrastructure," said Mr Shrivastava.

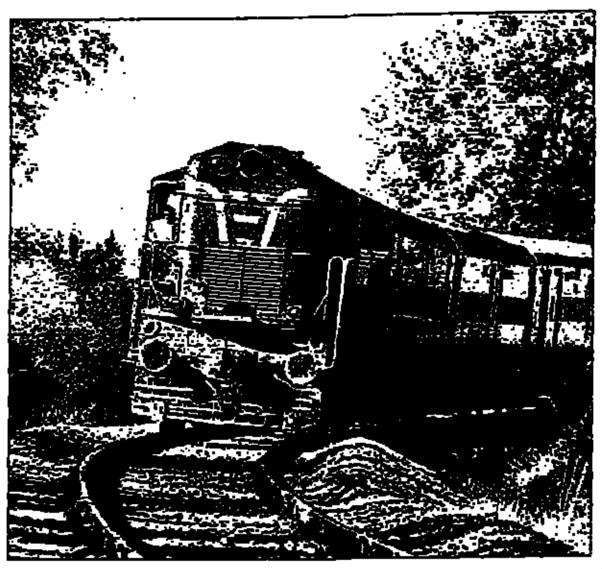
The company is banking on the federal and state government for infrastructure development, including the establishment of a railway link between the mines and Paradip Port.

The state government believes the project will take off because of the size and quality of reserves and the distance of only 260km from the port. RTOML is talking to Indian Railways, a federal government undertaking, about forming a joint venture for running trains to move ore from the mines.

"It is critical for the project that cargo handling is done efficiently and that freight constitutes a small portion of the total cost," said Mr Shrivastava.

RTOML is taking Hamersley Iron, the Rio Tinto subsidiary in Australia, which mines 60m tonnes of iron ore a year, as its model for cargo handling and work practices.

"Paradip Port must have the capacity to handle ships of 200,000dwt against 60,000dwt now," said Mr Shrivastava. "The Paradip Port Trust has identified land for creating a dedicated iron ore berth for RTOML. But we will have the option to move iron ore through the proposed Dhamra port."



RTOML is discussing the transport of ore with Indian Railways

RTOML proposes selling half the mined ore abroad. "Our target markets are the countries around the Bay of Bengal and Arabian Sea and Europe," Mr Shrivastava said. "The three new steel plants in Orissa and the ones in the eastern and western parts of Orissa will be our customers here."

"We are sure the Rio Tinto project will not get stuck through agitation by environmentalists and tribal groups, as has happened with other mining projects," a government official said.

"The company has surveyed the mining areas extensively, including habitation patterns and flora and fauna. We have been assured that the project will not cause distress and it will be environment-friendly."

Broker remains bearish on cocoa

By Paul Solman

Weak cocoa futures prices can be explained by a change in manufacturers' buying policies, according to GNI, a leading commodities broker.

In its latest "Commodity Perspective" report, GNI said the outlook for cocoa remained bearish, in spite of forecasts that production would fall short of grindings in the current season.

"It would seem as if chocolate manufacturers are starting to move towards the 'just-in-time' stock-holding policy that has worked so successfully in the coffee market," GNI said.

Manufacturers are keeping stocks at a comfortable minimum, then holding back from the market when prices rally, the broker said.

"Even at cheap prices the manufacturers have continued a just-in-time strategy, finally forcing producers to the market, pressing prices even lower."

Latest figures from the US Department of Agriculture put global cocoa production at 2.69m tonnes for the 1998-99 season, which runs from October to September. USDA forecasts total grindings at 2.9m tonnes, leaving a supply deficit for the second year in a row.

However, prices have been weak for the past few months, and are trading below £1,000 a tonne on the London International Financial Futures and Options Exchange compared with £1,150 just six months ago.

"Cocoa appears condemned to a continuation of the recent bearish trend," GNI added. "Stock figures may be a little unreliable in Europe, but on the whole, inventories are comfortable by any measure."

Liffe's March cocoa futures contract closed at £983 a tonne, against Tuesday's level of £978.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1291.5-2.5	1292-2.5
Previous	1297-98	1300-01
High/low		1296/1282
AM Official	1292-92.5	1293-93.5
Kerb close		1294-5
Open int.	313,909	
Total daily turnover	71,508	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1073-8	1103-5
Previous	1073-78	1103-05
High/low		1105/1103
AM Official	1071-72	1101-1.5
Kerb close		1103-5
Open int.	6,818	
Total daily turnover	1,474	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	489-90	483-4
Previous	491-2	485-5.5
High/low		486/481
AM Official	489-90	484.5-85.0
Kerb close		484-5
Open int.	40,912	
Total daily turnover	14,206	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4015-25	4080-90
Previous	4110-20	4175-85
High/low		4170/4090
AM Official	4055-60	4130-40
Kerb close		4130-40
Open int.	67,704	
Total daily turnover	18,852	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5350-60	5340-50
Previous	5360-70	5350-60
High/low		5360/5345
AM Official	5365-70	5360-65
Kerb close		5355-60
Open int.	18,980	
Total daily turnover	3,764	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	980-81	998.5-9.0
Previous	990-1	1007.5-08.5
High/low		1003/996
AM Official	984-84.5	1001.5-2.0
Kerb close		996-7
Open int.	84,121	
Total daily turnover	17,326	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1530-1	1559-60
Previous	1553-54	1581-82
High/low		1575/1557
AM Official	1529-30	1560-61
Kerb close		1562-2.5
Open int.	166,398	
Total daily turnover	60,132	

■ LME AM Official £/$ rate: 1.6569

LME Closing £/$ rate: 1.6620

Spot: 1.6543 3 mths: 1.6486 6 mths: 1.6442 9 mths: 1.6406

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	68.85	-1.00	70.00	68.80	2,496	6,534
Jan	69.45	-1.00	70.00	69.45	375	2,975
Feb	69.85	-1.00	70.40	70.30	138	1,815
Mar	70.25	-1.05	71.50	70.20	4,998	36,700
Apr	70.60	-1.05	71.45	70.65	12	1,391
May	71.00	-1.00	72.05	70.90	118	4,336
Total					8,390	69,175

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	293.60-294.10		
Opening	294.10-294.40		
Morning fix	292.90	177.830	404.700
Afternoon fix	294.15	177.007	402.397
Day's High	294.50-294.80		
Day's Low	293.40-293.70		
Previous close	293.90-294.40		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.17	6 months	3.81
2 months	4.11	12 months	3.51
3 months	4.08		

Silver Fix	p/troy oz.	US cts equiv.
Spot	294.21	487.50

Silver Lending Rates

1 month	4.00	6 months	2.55
2 months	3.65	12 months	2.30
3 months	3.35		

Gold Coins	$ price	£ equiv.
Krugerrand	297-301	178-180
New Sovereign	69-73	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	292.7	-0.7	294.4	292.3	1,287	2,577
Feb	295.2	-0.7	296.7	294.9	17,129	56,267
Apr	297.1	-0.8	298.5	297.0	1,142	18,456
Jun	298.8	-0.8	300.6	298.9	509	15,614
Aug	300.5	-0.8	301.3	301.3	532	6,389
Oct	302.1	-0.9	303.0	303.0	18	2,459
Total					21,786	143,538

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	346.7	-5.4	350.8	346.1	1,676	11,120
Apr	347.7	-5.4	351.0	347.5	396	1,947
Jul	349.1	-5.4	349.5	349.5	11	267
Oct	350.4	-5.4	-	-	-	994
Total					2,083	14,329

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	272.60	-0.05	273.00	270.10	170	323
Mar	272.10	+0.45	274.00	269.00	358	2,201
Jun	270.10	+0.45	-	-	5	9
Total					528	2,680

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	466.4	-18.8	485.0	465.0	1,056	1,973
Jan	468.6	-18.8	477.0	475.0	14	85
Mar	472.0	-19.0	491.0	471.0	6,061	49,355
May	475.0	-19.0	494.0	473.5	68	6,069
Jul	477.6	-19.3	496.0	479.0	16	6,327
Sep	480.1	-19.4	481.5	481.5	2	1,491
Total					7,480	74,764

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	11.09	-0.04	11.28	10.95	63,854	124.2k
Feb	11.52	-0.05	11.75	11.42	35,079	68,626
Mar	11.93	-0.07	12.13	11.87	11,041	41,920
Apr	12.32	-0.06	12.51	12.28	4,716	20,214
May	12.68	-0.06	12.75	12.65	1,556	19,216
Jun	13.06	+0.01	13.08	12.95	4,486	25,662
Total					131,981	498,806

■ CRUDE OIL IPE ($/barrel)

	6pm price	Day's change	High	Low	Vol	Open int
Jan	10.15	-0.07	10.43	10.09	15,246	76,092
Feb	10.48	-0.13	10.76	10.43	10,439	47,213
Mar	10.81	-0.11	11.08	10.75	1,037	27,457
Apr	11.13	-0.10	11.37	11.05	1,112	13,798
May	11.40	-0.12	11.55	11.35	752	10,308
Jun	11.63	-0.18	11.92	11.63	2,210	22,177
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	32.10	+0.35	32.33	31.60	17,125	62,999
Feb	33.35	+0.27	33.60	32.90	8,247	31,061
Mar	34.15	+0.22	34.40	33.85	2,341	22,012
Apr	35.00	+0.32	35.10	34.52	1,412	13,497
May	35.70	+0.27	35.80	35.50	378	11,454
Jun	36.50	+0.32	36.60	36.25	868	9,445
Total					34,662	184,911

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	93.00	+1.25	93.25	91.25	12,527	38,426
Jan	96.75	+0.75	97.50	95.25	10,238	30,355
Feb	100.75	+0.75	101.25	99.25	1,551	21,568
Mar	102.50	-	103.50	102.00	663	12,349
Apr	104.50	-0.50	106.00	104.50	335	8,705
May	107.75	+0.25	108.75	107.25	590	3,234
Total					28,000	153,402

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Jan	16.980	+0.240	17.000	16.770	170	3,975
Feb	15.870	+0.130	15.850	15.700	80	5,200
Total					1,100	26,340

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	1.975	-	2.020	1.920	37,969	55,759
Feb	2.000	+0.042	2.040	1.955	15,847	29,228
Mar	1.995	+0.005	2.015	1.965	8,577	25,459
Apr	1.990	+0.002	2.010	1.965	4,886	14,796
May	2.005	+0.015	2.025	1.980	2,341	11,216
Total					81,328	230,510

■ UNLEADED GASOLINE

NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.020	+0.017	2.035	1.995	2,739	11,379
Jan	34.25	-0.28	34.75	33.80	41,490	41,490
Feb	35.90	-0.06	35.85	35.30	10,353	10,353
Mar	37.25	-0.06	37.25	36.95	7,358	7,358
Apr	40.60	-0.21	40.60	40.50	9,089	9,089
May	41.50	-0.31	41.70	41.50	8,448	8,448
Jun	42.25	-0.21	42.25	42.25	5,324	5,324

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	78.85	-0.45	79.45	78.65	130	1,777
Mar	80.50	-0.50	80.50	80.35	56	3,377
May	82.50	-0.50	82.75	82.35	53	2,814
Jul	84.50	-0.50	85.15	85.15	5	302
Sep	81.50	-0.75	-	-	-	94
Total					323	8,436

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	274.75	+1.25	276.75	273.75	6,611	5,394
Mar	289.75	+0.25	291.75	288.00	16,776	74,354
May	299.75	-	301.25	-	5,867	11,250
Jul	309.50	-0.25	311.50	307.00	4,321	22,827
Sep	318.50	-	319.50	319.00	116	1,357
Dec	330.50	-	331.50	330.00	130	1,206
Total					33,821	116,388

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	217.50	-0.25	218.75	216.75	18,460	32,533
Mar	227.25	-1.25	229.00	227.00	28,589	162,758
May	235.25	-1.00	236.75	235.00	2,248	40,682
Jul	241.00	-1.25	242.50	240.75	1,853	47,859
Sep	247.00	-0.75	247.75	247.00	156	7,878
Dec	252.75	-0.50	253.50	252.50	968	21,200
Total					52,460	314,558

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	78.60	-0.25	78.75	78.75	2	560
Mar	80.75	-0.25	-	-	-	320
May	81.75	-0.25	-	-	-	32
Sep	79.50	-0.50	-	-	-	20
Nov	81.50	-0.50	-	-	-	15
Total					2	947

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	587.75	+5.75	591.50	580.00	28,468	72,277
Mar	597.75	+6.00	601.00	589.75	6,514	30,495
May	605.75	+5.50	609.00	598.50	2,197	14,553
Jul	612.75	+5.75	616.25	605.50	2,135	19,568
Aug	614.00	+5.50	617.00	609.75	336	2,149
Sep	610.50	+4.00	612.00	612.00	2	388
Total					40,809	149,063

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	24.95	-0.17	25.01	24.82	8,365	6,100
Jan	25.14	-0.09	25.21	25.01	16,634	39,202
Mar	25.39	-0.09	25.50	25.26	5,880	32,431
May	25.55	-0.09	25.61	25.40	9,634	11,879
Jul	25.70	-0.11	25.75	25.55	1,036	13,980
Aug	25.75	-0.08	25.70	25.70	172	2,001
Total					33,476	111,718

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	150.8	+4.6	151.7	148.0	7,310	12,813
Jan	151.9	+4.3	153.0	147.4	10,686	50,708
Mar	155.1	+4.0	156.1	151.3	4,513	26,167
May	158.2	+3.7	159.0	154.8	1,174	11,911
Jul	161.5	+3.5	162.0	158.5	504	16,577
Aug	162.5	+2.7	163.5	159.8	482	3,389
Total					24,787	128,345

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	320.0	+90.0	-	-	-	-
Apr	314.0	+9.0	314.0	310.0	63	2,054
May	324.0	+9.0	-	-	-	-
Jun	334.0	+9.0	-	-	-	-
Nov	85.0	-	-	-	-	-
Total					63	2,054

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	865	-12	897	885	18	165
Jan	879	-21	895	879	31	622
Apr	950	-10	980	950	154	833
Jul	845	-5	850	845	15	386
Total					234	2,354

	Close	Prev
BFI	925	935

PULP AND PAPER

■ PULPEX OMLX (US$: 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	406.00	-1.00	411.00	402.00	9	291
Mar	425.75	-8.25	431.00	420.00	82	417
Total						

FUTURES DATA

All futures data supplied by CMS.

Nuts and seeds Prices from Kenkko London $ per m/t. Iranian pistachios 28/30 raw (in shell) naturally opened (round): crop 1997 sold out, but new crop offered as follows: 28/30 at $2,900, CFR MEP, 20/22 at $3,650 CFR MEP. Turkish hazelnuts 13/15 and 11/13, for crop 1998 indication $4,450 CFR. Market unstable, no long-term offers. Indian cashews crop 1998 CFR from top shippers. W320 at $5,950. W240 at $6,950. Market increasing because of less African seeds. US almonds standard 5 per cent crop 1998 at $4,200 to $4,300. Mainly second-hand goods. Moldovian walnuts crop 1998 offered as light halves and pieces at $3,650 CFR MEP (duty paid).

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	940	+4	946	939	153	704
Mar	984	+6	990	980	2,098	52,988
May	1003	+5	1009	1001	136	27,411
Jul	1020	+5	1025	1018	177	11,522
Sep	1038	+6	1043	1035	502	27,696
Dec	1063	+7	1067	1059	307	12,706
Total					3,373	146,104

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1468	+27	1462	1447	133	640
Mar	1485	+27	1487	1456	2,862	41,368
May	1507	+25	1509	1485	493	12,132
Jul	1530	+23	1527	1508	135	2,954
Sep	1553	+22	1531	1531	197	3,738
Dec	1582	+22	-	-	105	5,463
Total					3,975	70,553

■ COCOA (ICCO) (SDR's/tonne)

Dec 1	Price	Prev. day
Daily	1125.52	1123.22

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1778	+3	1783	1748	2,026	21,926
Mar	1690	-5	1695	1657	1,987	14,063
May	1654	-5	1652	1622	279	5,241
Jul	1634	-5	1623	1602	145	1,202
Sep	1614	-5	1598	1598	66	510
Nov	1594	-5	-	-	-	250
Total					4,483	43,192

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	113.35	+2.10	114.00	111.00	228	819
Mar	110.30	+1.45	110.90	107.00	5,145	17,775
May	110.90	+1.65	111.00	107.90	731	5,587
Jul	111.90	+1.85	110.40	109.00	60	2,231
Sep	112.90	+1.85	111.00	110.00	6	1,481
Dec	114.10	+1.90	-	-	42	768
Total					6,212	28,717

■ COFFEE (ICO) (US cents/pound)

Dec 1		Prev. day
Comp. daily	97.22	98.95
15 day average	97.20	97.45

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	244.6	+2.2	245.4	242.0	1,024	20,754
May	245.8	+2.3	245.8	243.5	473	5,220
Aug	245.8	+2.4	246.0	245.2	103	3,807
Oct	239.5	+1.6	239.8	238.5	306	3,679
Dec	240.7	+1.0	-	-	-	310
Mar	243.0	+2.0	244.0	244.0	-	643
Total					1,910	34,413

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	8.30	-0.01	8.40	8.27	17,002	86,317
May	8.36	-0.03	8.46	8.35	2,534	18,532
Jul	8.39	-0.03	8.47	8.39	791	17,664
Oct	8.58	-0.01	8.63	8.57	984	13,661
Mar	8.74	-0.03	8.78	8.75	716	8,882
May	8.80	-0.02	8.80	8.80	335	1,859
Total					22,422	147,492

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	61.30	-	62.00	60.55	60	298
Mar	63.95	-	65.00	63.45	4,024	38,287
May	64.60	-	65.60	64.30	668	15,481
Jul	65.35	-	66.05	64.95	746	11,283
Oct	66.15	-	66.15	66.00	9	1,048
Dec	66.90	-	67.40	66.80	183	11,237
Total					5,878	78,639

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	117.45	-1.50	119.00	116.40	651	12,988
Mar	119.65	-1.30	120.90	118.75	482	6,771
May	121.45	-1.00	122.50	122.50	12	1,680
Jul	122.95	-0.75	122.00	122.00	16	1,535
Sep	122.95	-1.05	124.00	123.50	20	181
Nov	122.95	-1.05	123.20	122.50	5	474
Total					1,181	23,817

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Dec 2	Dec 1	month ago	year ago
1470.2	1475.6	1492.5	1795.5

■ CRB Futures (Base: 1967 = 100)

Dec 1	Nov 30	month ago	year ago
195.42	195.42	-	-

■ GSCI Spot (Base: 1970 = 100)

Dec 1	Nov 30	month ago	year ago
133.13	133.48	148.25	189.38

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+350	to	585,200
Aluminium alloy	+580	to	93,120
Copper	+3,675	to	515,125
Lead	+375	to	105,750
Nickel	+252	to	62,610
Zinc	-450	to	328,125
Tin	-105	to	7,455

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	62.075	-1.125	62.950	61.875	6,271	20,719
Feb	62.150	-0.950	62.900	61.950	4,910	39,518
Apr	64.700	-0.450	64.975	64.325	1,771	22,801
Jun	63.525	-0.250	63.700	63.200	889	11,840
Aug	63.625	-0.200	63.925	63.500	300	7,703
Oct	66.450	-0.175	66.525	66.075	76	2,177
Total						

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	29.375	-0.400	29.600	28.750	5,916	10,725
Feb	37.775	-0.450	38.300	37.250	4,650	16,367
Apr	41.375	-0.500	41.950	40.825	1,933	7,227
Jun	51.475	-0.875	52.600	51.100	591	4,668
Jul	53.275	-0.800	54.075	52.400	214	2,263
Aug	53.250	-0.900	54.150	52.400	461	2,291
Total						

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	45.600	-1.275	46.050	44.875	1,280	4,291
Mar	45.375	-1.125	46.000	44.500	113	718
May	46.400	-1.125	47.100	46.400	18	446
Jul	47.550	-0.500	47.700	47.300	9	125
Total						

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1250	59	13	107	36
1300	12	65	55	82
1350	1	154	24	150
■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
1500	59	7	61	28
1600	27	25	53	49
1700	9	57	33	77
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1650	133	-	5	-
1700	90	-	12	-
1750	54	-	26	-
■ COCOA LIFFE	Dec	Mar	Dec	Mar
950	25	51	1	17
975	3	36	3	27
1000	1	25	25	41
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1000	-	-	27	46
1050	29	73	-	-
1100	17	47	98	86

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$9.68-9.78x	-0.30
Brent Blend (dated)	$9.62-9.66	-0.165
Brent Blend (Jan)	$10.22-0.26	-0.165
W.T.I.	$11.11-1.15x	-0.12

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$116-118	
Gas Oil	$92-93	+1
Heavy Fuel Oil	$54-57	
Naphtha	$113-116	
Jet fuel	$106-108	+1
Diesel	$100-101	-0.5

■ NATURAL GAS (Pence/therm)

Bacton (Jan)	16.95-17.00	+0.25

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$293.85	-0.40
Silver (per troy oz)♣	487.50c	
Platinum (per troy oz.)	$346.50	-3.00
Palladium (per troy oz.)	$271.00	-1.00
Copper	76.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	18.93r	
Tin (New York)	254.5	
Cattle (live weight)	84.21p	+0.43*
Sheep (live weight)	61.18p	-0.25*
Pigs (live weight)†	48.85p	+0.57*
Lon. day sugar (raw)	$202.00	+1.80
Lon. day sugar (wte)	$241.50	
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jan)♥	49.25p	
Rubber (Feb)♥	49.75p	
Rubber (KL RSS No1)	267.50m	-1.00
Coconut Oil (Phil)§	760.0y	-10.0
Palm Oil (Malay.)§	637.5	-7.5
Copra (Phil)§	$475.0y	-10.0
Soyabeans (US)	155.0y	
Cotton Outlook'A' index	55.90	
Wooltops (64s Super)	315p	

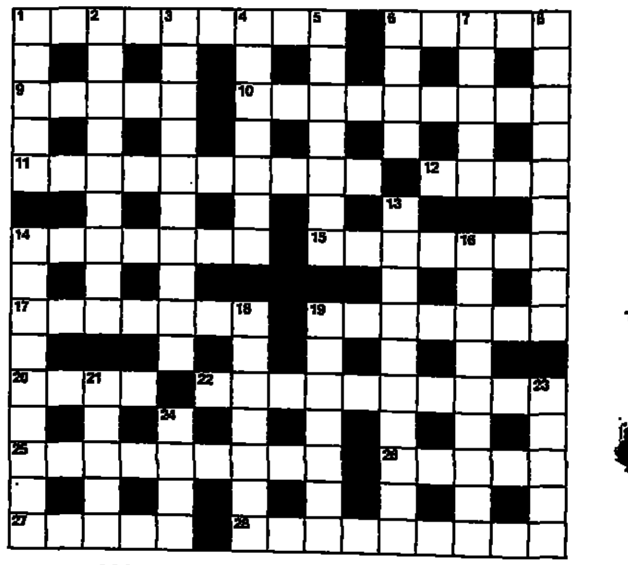
£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Dec. x Jan. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on n/a head of pigs sold.

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9.855 Set by ADAMANT



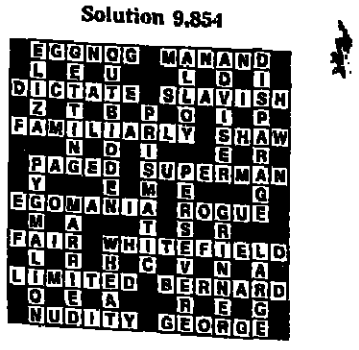
ACROSS

- 1 Can one who starts the batting be a cutter? (3,6)
- 6 Some fathers want to be in at all stages of birth (5)
- 9 Started to ask for a name (5)
- 10 A resort we developed as a sweet solution (9)
- 11 Taking away the pain of living (10)
- 12 Song of joy (4)
- 14 Rich man hiding one penny shares (7)
- 15 Vessels proceed to Birkenhead: let's follow (7)
- 17 Stupid mistake to ignore last quarrel (7)
- 19 Rights to invention of open society (7)
- 20 Beware the rocky hollow (4)
- 22 Being Communist, eastern Europe took blame unfortunately, but can be saved (10)
- 25 Having a peculiar expression (9)
- 26 Fixes the claws (5)
- 27 Wants women out of Sweden – that's revolutionary! (5)
- 28 Gives fresh look to flags of merchant fleet, omitting navy (9)

DOWN

- 1 Present the bill for the furniture (5)
- 2 Unexposed pictures, for example, taken among indigenous people (9)
- 3 Take wide view of judge and peculiar potentate (10)
- 4 Standard reply to those who came with William (7)
- 5 Without a part being set out in circle (7)
- 6 Information from all quarters (4)
- 7 Drink a litre of the whole amount (5)
- 8 Girls hugging poor little Reginald get hand-outs (9)
- 13 Mitigated sentences from a graduate, note, for people on way up (10)
- 14 The inference was that a number was taken away (9)
- 16 Honouring the common people (9)
- 18 Choose gold for the prince (7)
- 19 Last month the epitaph about Edward I turned up, perforated (7)
- 21 Hole in horrid material (5)
- 23 Makes it less painful for England overseas (5)
- 24 After a short time, start studying the book (4)

Solution 9,854



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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Pembroke Hall, Pembroke, Bermuda

Jupiter Asset Management (Bermuda) Ltd

PO Box HM1258, Hamilton, Bermuda 001 441 292 2760

Newport Investment Management

Orion Fund Limited

8 Front St., Hamilton, HM11, Bermuda HM 71441 292 5370

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mgmt Ltd

Marshall Wace Asset Management Limited

Masters International Advisors

Montgomery Emerging Markets Fund Ltd

Morgan Stanley Oifs Advisory Mortgage Fd Inc

National Investment Trust Company Ltd

North Atlantic Management Co Ltd

Olympus Capital Management Ltd

Omega Overseas Partners Ltd

Opportunity Fund (z)

Orion Capital Advisors Ltd

The Osprey Group Of Funds

Pacific & General Investments Inc

Pakistan Fund

Pardoel International Ltd

Perry Partners International Inc

Philippine Income Fund Inc

Pro Value AG

Prospector Fund Management Ltd

Prudential Securities Futures Mgmt, Inc

Putnam Offshore Funds

Royal Bk of Canada O/S Fd Mgrs Ltd

PO Box 246, St Peter Port, Guernsey 01481 723021

Sarasin Funds Mngmt (Guernsey) Ltd

PO Box 248, St Peter Port, Guernsey 01481 725021

Schroder Investment Mngmt (Guernsey) Ltd

PO Box 255, St Peter Port, Guernsey 01481 710051

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

ABZ Mngmt Co (Guernsey) Ltd

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

ABN AMRO Global Ltd

Aberdeen Prolific Intl

BT Fund Managers

Lazard Investment Funds Ltd

20/22 Lower Hatch Street, Dublin 2, Ireland 3531 7905088

Bank of Cyprus Group

1 Harbourmaster Place, IFSC Dublin 1 353 16700300

Baring Intl Fd Mngrs (Ireland) Ltd

IFSC Hse, Custom Hse Docks Dublin 0171-628 6000

Lazard Investment Funds Ltd – Contd.

Lehman Brothers/GLG Partners Asset Mngmt

IFSC Trade Centre, IFSC, Dublin 1

Morgan Grenfell Investment Funds Ltd (a)

20 Finsbury Circus, London EC2M 1UT 0171 545 7474

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Offshore Funds and Insurances

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Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Royal Bank of Scotland International Ltd

For TSB Fd Mgrs see Lloyds TSB Fd Mgrs

JERSEY (REGULATED)(**)

ABSA Offshore Fund Managers (Jersey) Ltd

AIB Govett Management (Jersey) Limited

Bank of Ireland Asset Mngmt (Jersey) Ltd

Barclays Global Investors Jersey Ltd

Barclays Intl Funds

Cater Allen Investment Management (CI)

Cazenove International Asset Mngt Ltd (CIAM)

Citibank (CI) Ltd "Citifunds"

Citibank N.A.

Coutts (Jersey) Fund Managers Ltd

EBC Fund Managers (Jersey) Ltd

Fleming Group

Foreign & Colonial Mngmt (Jersey) Ltd

For Hambros Fund Mngrs see SG Hambros Fund Mngrs

INVESCO International Limited

Investec Management Co (Jersey) Limited

Jupiter Asset Management (Jersey) Ltd

Lazard Fund Administration Services (CI) Ltd

Lazard Investment Funds (CI) Ltd

Liberty International Asset Management

Lloyds TSB Fund Managers (CI) Ltd

Lombard Odier (Jersey) Ltd

Mercury Asset Mngt Channel Islands Ltd.

Midland Bank Fund Managers (Jersey) Ltd

Minerals, Oils Res. Shrs. Fd. Inc.

Murray Johnstone (Jersey) Limited

Newton Fund Managers (CI) Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

SG Hambros Fund Managers (Jersey) Ltd

Standard Bank Fund Mngmt (Jersey) Ltd

For TSB Fd Mngrs (CI) Ltd see Lloyds TSB Fd Mngrs

WMB Asset Management (Jersey) Ltd

Worldinvest (Managers) Jersey Ltd

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds (u)

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

American Phoenix Investment Portfolios (u)

Bank Von Ernst & Cie AG

For Banque Indosuez see Credit Agricole Indosuez

Barclays Diversified Portfolio (z)

Barclays Inv Funds (Luxembourg)

CMI Asset Management (Luxembourg) SA

Capital International

Chase Manhattan Vista Funds

Comgest SA

Commercial Union Luxembourg SA (u)

Credit Agricole Indosuez

DB Investment Management SA

Danske Fund (u)

Den norske Bank

Dresdner RCM Global Investors (UK) Ltd

Dresdner RCM Japanese Warrant Fund

Dresdner RCM Select Fund (u)

Dresdnerbank Asset Mngmt SA (u)

EFG Proton Asset Management S.A.

E.T. Investment Management Ltd

Elgistan Global SICAV (u)

Fidelity Funds (u)

Fleming Group (u)

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav(u)

Framlington International Portfolios

Frontrunner I (u)

GT Global

HSBC Investment Funds Luxembourg SA (u)

Henderson Management SA (u)

IKOS

INVESCO International Limited (u)

JP Morgan

Jefferies

Jupiter Tyndall Global Fund

Liberty Newport World Portfolio (u)

Lloyds Bank Luxembourg

Lombard Odier Invest (u)

Manulife Global Fund (u) (z)

Mercury Asset Management

Mercury Asset Management - Contd.

Mercury Offshore Stlg Tst-SICAV (u)

Mercury World Bond Fund – SICAV (u)

Morgan Stanley Sicav

Nikko Global Umbrella Fund

Nomura Global Fund (u)

PRICOA Worldwide Inv Portfolio Sicav (u)

Premier International Investments SICAV

Rothschild Asset Management

S-E-Banken Luxembourg SA

Sarasin Investmentfonds SICAV (u)

Schroder International Selection Fd (u)

Scottish Equitable Intl Fund SICAV (u)

Sun Life Global Management Ltd (u)

Svenska Selection Fund SICAV

Templeton Global Strategy Funds (u)

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

Aetna International Umbrella Fund (u)

Aetna Master Fund (u) (x)

Amas Bank (Switzerland) Ltd

The Archipelago Fund Sicaf

Atlantas Sicav

BNP

Banque Colbert S.A.

Banque Ferrier Lullin (Lux) SA

Banque Internationale A Luxembourg

Barclays Liquidity Portfolio

Blakeney Management Ltd

Brunswick Russian Emerging Equities Trust

Bryan Garnier Asset Management

CB Fund International (u)

Capel-Cure Myers Intnl Fd Sicav (u)

Carlson Investment Management

Citicorp Investment Mgmt (Luxembourg) SA

Citimarkets SA

Clark Capital Management Group Inc

Cox & Kings Overseas Fund

Credit Agricole Indosuez

Credit Lyonnais House (Bermuda) Ltd

Credit Suisse Asset Mgmt Funds

Credit Suisse Asset Mgmt Funds - Contd.

Daiwa Japan Small Equity Fd (u)

Dicam Worldwide Investment Fund

Dresdner RCM European Bond Fund

Egypt Trust

Emerging Markets Brewery Fund SICAV

The European Asset Value Fund

FMG Mir SICAV

Fidelity Investment (CI) Ltd

The First Korea Smaller Companies Fund

Fischer Francis Trees & Watts

Fleming Group

Fonditalia Mgmt Company SA (Umbrella Fund)

Foreign & Colonial Emerging Markets Ltd

For Framlington Intl Ptfls see Lux (FSA)

Framlington Russian Investment Fund

Franklin Templeton Worldwide Funds

Fred Alger Management Inc

Frontrunner II

Global Funds Management S.A. (u)

Goldman Sachs

HYPO Capital Mgmt Invest Luxembourg SA

Henderson Independent Fund

International Bond Trust

INVESCO International Limited

InverSud Investment Fund SICAV

Investissements Atlantiques SA

JP Morgan

Kredietbank SA Luxembourg

Lebanon Holdings

Lloyds Bank Luxembourg

Lombard Odier Selection

MC Securities Limited London

MFS American Funds

Merrill Lynch Asset Management

Merrill Lynch Asset Management - Contd.

Monterey Trust SICAV

Murray Universal, Sicav

NICAM Asia Pacific Umbrella Fund

Nikko Bank (Luxembourg) S.A.

Nikko Capital Management

Nomura Asian Infrastructure Fd SICAV

Pan-Holding SA

Pictet Group

REG Global Funds

Regent Korea Emerging Growth Fund

Rosenberg Management SA

Rothschild (Group Edmond de)

SCI/TECH SA

Scudder Global Opportunities Funds

Sector Fund

Seligman Global Horizon Funds

Sigma Fund SICAV

Sinopia Asset Management

Societe Generale Emer Europa Asset Mgt

Standard Chartered Investment Fund SA

State Street Luxembourg SA

State Street Research & Management Co

Storebrand Scudder Environmental Value Fd

For Swiss Bank Corporation see UBS AG

TCW Luxembourg Funds

Target International Ltd

Templeton Emerging Asia

Templeton Russian & East European Debt Fd

Tower Fund

Tweedy, Browne Value Funds

UBS AG

UBS AG - Contd.

Unicapital Investments

Unico Financial Services SA Lux

Union Bancaire Privee

Vesper Conseil

"WINTERTHUR" Fund Mngmt Co (Lux) SA

WP Stewart Global Growth Fund

World Invest SICAV

World Trust Fund

OFFSHORE INSURANCES

Aberdeen International Ltd

Albany International Assurance Ltd

Allied Dunbar International Assce Ltd (z)

CMI Insurance Co Ltd

CMI Ins Co Ltd/Clerical Med Life

Equitable Life (International)

Equity Fund Managers

Eurolife Assurance Group

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Finance International Ltd
PO Box 193, St Peter Port, Guernsey 01481 713100

Friends Provident International
Albert House, Sth Esplanade, St Peter Pt, Guy 01481 708010

Generali International Limited
PO Box 77 Las Escaliers Ct, St Peter Port, Guy 01481 714108

Hansard Europe Limited
Frescati Rd, Blackrock Co, Dublin +353 1 278 1488

Hansard International Ltd

Royal & Sun Alliance Intl Financial Srvs

Royal Skandia Life Assurance Ltd (z)

Old Mutual Hong Kong

Old Mutual International (Guernsey) Ltd
PO Box 121, St. Peter Port Guernsey 01481 726726

Old Mutual International (Ireland) Ltd
50 Dawson Street, Dublin 2, Ireland

Sun Life International (IOM) Ltd

OTHER OFFSHORE FUNDS

AXA Asset Management

AXA Investment Managers Hong Kong Ltd

Aberdeen Asset Management Asia Limited

Ability Fund Limited

Acciones y Valores de Mexico SA de CV

Acuma Capital Management Limited

Advanced Asset Management Ltd

Alexandra Global Investment Fund I, Ltd

Alfonar Investment Holdings N.V.

Alliance Capital

Allied Dunbar International Fund Mngrs (1000)

Alpha Fund Management Ltd

The American Trust Bank

Atlantic Fund Management (Guernsey) Ltd

Aurum Funds

BEA Associates

Julius Baer Bank & Trust Co Ltd

Banca Belg. S.A. (Principality of Andorra)

Banc Internacional D'Andorra Banca Mora

Bank Von Ernst & Cie AG

Banque Nationale de Paris Plc

Chinese Investment Trust Mgt & Secs Co Ltd

Colbert Securities Asset Management Limited

Commercial Union

Connor Asset Management Ltd

Coutts & Co

Credit Suisse Asset Mgmt Funds

Credit Agricole/INDOCAM

Crosby Asset Management Ltd

Crystal Corporation N.V.

Crystal Fund Managers (Bermuda) Ltd

DWS Deutsche Ges. F. Wertpapiersp

Daiwa Intl Capital Management (H.K.) Ltd

Delta Fund

Delta Managed Funds Limited

Dresdner Bank Investment Group - Contd.

EBS Overseas Fund Ltd

East Europe Development Fund Ltd

Edinburgh Fund Managers (Bermuda) Ltd

Egerton European Dollar Fund Ltd

Egerton European Equity Fund Ltd

Emerging Markets Management

The Enhanced Profit Fund Ltd

The Environmental Investment Co Ltd

Europe 1992

Eurovest Ltd

Everest Capital Limited

F.I. Founders Asset Management Ltd

The FMG Fund Managers Ltd (Bermuda)

Fairfield Greenwich Group

Fairway International Ltd

Fidelity Investments

First Investments Ltd

First Mexico Income Fund

Fleming Leveraged Emerging Mkt Portfolio Ltd

Focus Group

Foyil Asset Management Ltd

Frank Russell Investments (Cayman) Ltd

Future World Trade Fund

GRC Asset Management

GW Fund Management (Bermuda) Ltd

The GP Taiwan Index Fund

GT Global

Garantia Banking Ltd

Garantia Fund of Funds Ltd

Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd

Jupiter Asset Management (Asia) Ltd

Jupiter Asset Mngt (Bermuda) Ltd

KD Offshore Fund, C.V.

National Mutual Funds Management

New Asia Asset Management Ltd

Nicholas-Applegate Capital Mgmt

Northern Light Funds Limited

North Star Fund Managers (Cayman) Ltd

Odey Asset Management Ltd

O'Higgins Asset Management

Old Mutual Intl Fund Managers (IoM) Ltd

Scudder, Stevens & Clark Inc

SEASAM Return Fund Ltd

Secure Growth Fund Ltd (Bermuda)

Secure Management (IOM) Limited

Selection Assets Series Fund Limited

Shinsei Investment Mngmt (Bermuda) Ltd

Sintra Fund Ltd

Smith Barney Funds

Societe Generale Group

Worldwide Limited

Xerxes Fund Management Ltd

Xiphias International Investment Fd Ltd

Zuland Asset Management AG

Zweig-DiMenna International Limited

● MANAGED FUNDS NOTES

The fund prices published in this edition are also available at the Financial Times' web site, http://www.FT.com

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
BG	†	406½xd	-½	438	248¼	4,980	2.6	33.3
Centrica		124	-1	128	80½	13,798	-	-
International Energy	†	134	—	147	98½	-	3.7	13.6

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

Net asset values supplied by BT Alex. Brown International as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

Net asset values supplied by BT Alex. Brown International as a guide only. See guide to London Share Service

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		[illegible]	—	251200	247700	-	-	-

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official list

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 4.1(a)(iv) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies
- # Price at time of suspension
- , Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1999.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
, ex dividend;
, ex scrip issue;
, ex rights;
, ex all;
, ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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Call 0171 873 4378 for more information on FT Cityline.

For Retail Price Index details call 0891 43 0066

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

Wall Street puts more pressure on UK stocks

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The profits warnings that have nibbled away at the edges of the London equity market's hard-won return of confidence came with a real rush yesterday, unnerving dealers and investors alike.

Piling on the pressure in London was the recent bad news on the domestic economy which included the severe contraction in output in the UK manufacturing sector that helped trigger Tuesday's 200-point plus fall in the London market.

And a final twist was added by the overnight news from the US where Boeing, the world's biggest aircraft manufacturer, shocked global markets by warning of a sharp slowdown in earnings and massive job losses.

"Without the Boeing news I think we might have been okay," said one London trader. "But that has really begun to worry the institutions who are now having to rethink strategy about the global earnings hit. It's going to be a long haul from here on."

Burdened by the fallout from the Boeing news, which cast a shadow over the engineering sector, the whole of the London market was under pressure for most of the day, ignoring Wall Street's rally on Tuesday.

The Dow Jones Industrial Average finished a net 16 points higher, having been down almost 130 points early in the session.

But the US market ran into another burst of selling pressure at the outset yesterday, dropping more than 40 points in the first 10 minutes of trading and posting a 170-point fall not long after the London market closed.

By the close of a session characterised by more heavy turnover of 1.1bn shares, much of it said to be associated with tax-related trades, the FTSE 100 index was 30.3 down at 5,507.2.

Earlier, when Wall Street was coming to terms with the Boeing news and a big sell-off in Sears Roebuck, which warned of lower-than-expected earnings, the index had dropped through the 5,500 level to record a session-low of 5,489.5.

The market's midcap and smallcap stocks also suffered but dealers said that the downside pressure was never overwhelming. The FTSE 250 closed 17.0 lower at 4,804.4, having momentarily dipped below the 4,800 mark, while the FTSE SmallCap gave up 2.7 to 2,036.8.

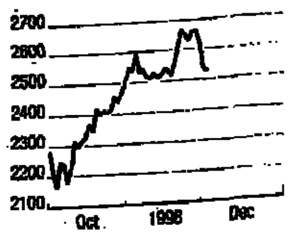
Marketmakers said they expected increasing volatility in London in the run-up to Christmas and the new year.

"London, along with most other markets, will be unreadable because of the Emu effect which has meant that the institutions have already taken the end-year positions they would normally have worked at during December," said one trader. "They won't get involved in the run-up to European monetary union and will simply stand back and watch. From here to the year-end, the markets will mostly be at the mercy of speculators."

The latest dose of profit warnings came from right across the board, with the most damaging from Arcadia, the high street retailer formerly known as the Burton group.

Arcadia pointed to a steep decline in consumer spending and some intense price markdowns by its competitors.

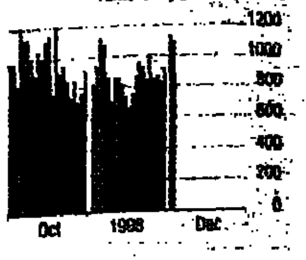
FTSE All-Share index



Sources: FTSE International/Topic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	5507.2	-30.3	FT 30	3341.8	-9.5
FTSE 250	4804.4	-17.0	FTSE Non-Fins p/e	20.97	21.14
FTSE 350	2619.0	-13.6	FTSE 100 Fut Dec	5507.0	-76.0
FTSE All-Share	2530.80	-12.61	10 yr Gilt yield	4.73	4.74
FTSE All-Share yield	3.10	3.09	Long gilt/equity yld ratio	1.48	1.48

Best performing sectors

1	Pharmaceuticals	+0.9
2	Engineering: Vehicles	+0.8
3	Extractive Industries	+0.6
4	Diversified Industrials	+0.5
5	Building Matls & Merch	+0.5

Worst performing sectors

1	Oil Exploration & Prod	-4.3
2	Oil Integrated	-4.0
3	Retailers General	-3.6
4	Resources	-3.5
5	Tobacco	-2.0

Arcadia stuns analysts

COMPANIES REPORT

By Joel Kibazo, Martin Brice and Peter John

A profits warning from fashion retailer Arcadia Group stunned investors, wrong-footed one of the company's brokers and sent shares in the group and sector plunging.

The company shocked the market with a statement that said the outlook for the first half of the current financial year was "not as encouraging as previously anticipated". It added that sales in the first 13 weeks of the first half were down 1.8 per cent.

The statement, which came "out of the blue" according to one sector specialist, appeared only weeks after the group indicated that trading was in line with expectations.

Analysts at Credit Suisse First Boston, one of Arcadia's two brokers, had been recommending the stock and were big buyers of the shares. Arcadia recently held presentations for institutions at which the message about current trading appeared confident.

"It's difficult to see how much worse the company could have handled this. Investors will feel stitched up," said one angry analyst. Another said: "What we have here now is a credibility problem with the management. Who can believe what they say anymore?"

Both CSFB and Cazenove, the company's other joint broker, were said to have slashed their year-to-August 1999 profit forecasts to £60m from £90m following the warning. CSFB also downgraded its recommendation from "buy" to "hold".

The shares lost 75½ or 26.2 per cent to 212½p, making them by far the worst performer in the FTSE 250.

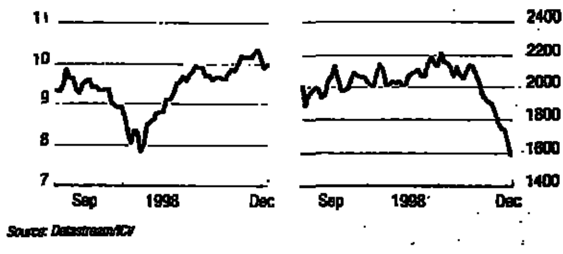
Dealers in the stores, already cowed by a long list of profit warnings in the sector this year, were again heard to scream for mercy as they digested the news from Arcadia.

Sell orders dominated activity, prompting a sharp decline in retail issues. Great Universal Stores was the worst performer in the FTSE 100 as the shares gave up 52 or 8.31 per cent to 574p.

Investors again baled out of Marks and Spencer, leaving the shares 15¼ off at 400p, after trade of 12m. Boots did not escape the retreat and the shares closed 34 lower at 940p. Sears was also a casualty, the shares easing 16 to 196½p.

Best and worst performing FTSE sectors

Pharmaceuticals ('000) | Oil Exploration & Production



Source: Datastream/ICV

The only ray of light came from electrical goods retailer Dixons. Moving against the sector and general market trend, the stock appreciated 18 to 758p, with sentiment said to have been boosted by Goldman Sachs reacting positively to a conference call with the company.

The surprise profits warning from US aerospace group Boeing took its toll across a swathe of UK defence and engineering companies.

The most obvious fall was suffered by British Aerospace which fell 20¼ to 477½p. However, the negative sentiment spread to general engineering companies likely to suffer a slowing of demand. Siebe, which was at 243p immediately after the announcement of its merger with BTR, was down 9 at 201p while BTR fell 2¼ to 113¾p.

Other engineering-related stocks expected to suffer a slowing of demand from Boeing were Britax International, off 6½ at 108¼p, Rolls-Royce, down 5 at 235p, and TI Group, which fell 8 to 322p.

Boeing pointed to a slowing of demand for air travel in Asia, and British Airways saw 10m traded as it lost 4 to 391p.

Smiths Industries managed to move against the falling tide, rising 15 to 840p in the wake of the earnings-enhancing purchase of Entraco.

The decision by leading Marley shareholder PDFM to underwrite the costs of bidder John Mansfield left the fund management group around £24.5m better off yesterday as the building materials company accepted a cash bid from Etex of Belgium.

Aggressive stance

Analysts were divided over whether the move signalled a more aggressive stance by fund managers, or whether the management at Marley was uniquely disliked by investors.

The Etex bid at 125p a share is at a premium of 60 per cent to the 78p at which Marley shares stood before offer speculation began. PDFM had a stake of about 18 per cent in Marley, which has fallen from more than 200p in four years.

PDFM underwrote the costs of John Mansfield's 97.4p paper offer, prompting Etex to make its move.

Dresdner Kleinwort Benson bought Marley shares in the market yesterday, as 59m were dealt, representing about 18 per cent of the company. Marley gained 16 per cent or 17½ to 123p, while John Mansfield was easier at 6½p. Norcros, over which John Mansfield cast its slide rule earlier this year, was up 5¼ at 53½p in brisk volume of 1.5m.

Rugby is also seen as a potential bid target following its recent profits warning. It rose 5½ to 87p.

Lasmo, the oil exploration and production group, fell almost 10 per cent to its lowest level for four and a half years. The slide of 12½ to 119½p reflected the market's concern that the company is struggling with oil prices.

CSFB called Lasmo's recent decision to axe a large chunk of head office staff "a panic move" and said: "We can expect little positive news flow from Lasmo over the next 12 months from an operational perspective."

Lehman Brothers registered disappointment that the meeting of Opec oil ministers had left production restrictions of 2.6m barrels a day unchanged.

ISA International said the pre-tax line would fall from £6.3m last year to about £3.2m and its shares, which stood at 239p last year, were down 7 at 33p.

The distributor hinted at management troubles as chief executive John Parkinson stood down due to the "need for the company to have clear unambiguous leadership".

Carlton Communications bounced 14½ to 492½p in belated reaction to full-year figures on Tuesday.

ICI improved 6 to 540p in anticipation of positive feedback from an analysts' trip to the company's operations in the Netherlands.

Buying ahead of today's results and reiteration of a "buy" recommendation from HSBC Securities saw Royal Bank of Scotland recover 14 to 870p. The shares have suffered since a Sunday newspaper said the bank would have to write off more than £100m in Asian debts.

FT 30 INDEX

	Dec 2	Dec 1	Nov 30	Nov 27	Nov 26	Yr ago	*High	*Low
FT 30	3341.8	3351.3	3449.7	3507.5	3504.9	3205.6	4004.9	2790.8
Ord. div. yield	3.15	3.14	3.05	3.00	3.00	3.55	4.22	2.72
P/E ratio net	21.32	21.35	22.00	22.38	22.38	20.72	25.41	15.80
P/E ratio nil	21.23	21.25	21.91	22.29	22.29	20.43	25.19	15.71

FT 30 since compilation: high 4004.9 7/15/98; low 49.4 6/26/40 Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3351.3	3343.5	3355.0	3335.6	3348.0	3350.2	3339.5	3342.8	3358.8	3324.9

*For 1998

STOCK MARKET TRADING DATA

	Dec 2	Dec 1	Nov 30	Nov 27	Nov 26	Yr ago
SEAQ bargains	67,069	74,501	67,211	59,041	59,206	44,637
Equity turnover (£m)†	-	3085.3	2823.7	2774.9	2786.2	2597.7
Equity bargains†	-	56,420	56,587	51,500	51,042	41,328
Shares traded (m)†	-	828.7	786.4	791.8	728.8	732.5
Total market bargains‡	-	73,348	65,862	n/a	59,787	-
Total turnover (£m)‡	-	3867.4	3423.2	n/a	3479.2	-
Total shrs traded (m)‡	*1115.6	1004.3	923.9	n/a	878.5	-
Tradepoint turnover (£m)	13.9	20.7	18.2	23.6	23.3	40.0
Tradepoint shrs traded(m)	7.7	9.4	7.6	7.3	8.54	11.7

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	605	Total Highs	21	Total contracts	28,145
Total Falls	854	Total Lows	98	Calls	10,850
Same	1,759			Puts	17,295

Dec 2 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5640.0	5507.0	-41.0	5650.0	5440.0	36022	182901
Mar	5689.5	5554.0	-42.0	5689.5	5490.0	6253	27980
Jun	5631.0	5598.0	-43.0	5631.0	5631.0	650	11605

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4840.0	4820.0	-22.0	4840.0	4820.0	1170	5164
Mar	4893.0	4873.0	-24.0	4893.0	4893.0	720	3432

■ FTSE 100 INDEX OPTION (LIFFE) (*5499) £10 per full index point Dec 2

	5300		5350		5400		5450		5500		5550		5600		5650	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P
Dec	288¾	78½	254¼	92½	218½	107	187½	127	156	143½	128½	171	105	199½	85	229½
Jan	393½	159	358½	172½	328½	184½	297	216½	267½	237	238	258	208½	279½	188½	308½
Feb	487½	231½	456½	251	426½	271	396½	291	366½	311	338½	331½	306½	352	277½	375½
Mar	527½	284	497½	303	467½	322	437½	341	407	360	377	374½	347	399½	320	423½
Jun†	673½	398½			613	435½			552½	472½			491½	510½		

Calls 731 Puts 2,150

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point Dec 2

	5325		5375		5425		5475		5525		5575		5625		5675	
Dec	282½	81	228	96½	196	114	162½	130½	134½	152½	110½	173	90	207½	71	230½
Jan	376	173½	342½	190	308½	205½	278½	225	245	241	222	267½	195½	291½	173	318
Feb	468½	235½	437	252½	405½	270½	375½	290	346½	310	318½	331½	292	354	267	378
Mar	508½	285			447½	321			388½	360			335	404½		-
Jun†	686½	403½			607	440½			552	481½			498	524		

Calls 4,861 Puts 9,868 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	5.88	117½	85	†Chromol	117½		-	-	-	-
§	F.P.	6.10	117	107	Collective Assets Tst	117		-	-	-	28.3
§125	F.P.	14.4	149½	127½	†Conncaught	149½		L5.10	1.9	4.3	11.9
-	F.P.	381.7	325½	229½	First Active	279½	+7	-	-	-	18.8
-	F.P.	-	119	105¾	Five Arrows Uts '40	118½	-½	-	-	-	-
*	F.P.	118.4	242	200	Gartan	234	-4½	W20.54	2.2	9.3	5.2
-	F.P	17.7	104	100	INVESCO Recovery	102½		FW9.05	-	9.4	-
-	F.P.	13.2	105	100½	Do Zero Div Pref	103½		F9.05	-	10.9	-
§97	F.P.	6.85	103	79½	MSW Technology	[illegible]			-	-	12.6
-	F.P.	37.3	13½	10	Morley B	11		-	-	-	-
§	F.P.	5.42	5½	4½	†Natural Bldg Mtls	5½		-	-	-	-
§	F.P.	2.10	105	105	†Do Cnv Prf	105		-	-	-	-
§	F.P.	13.8	27½	27½	†Offshore Tool & En	27½		-	-	-	-
-	F.P.	7.64	93	90½	Piccadilly Growth	92½		1.6	0.8	2.2	72.5
100	F.P.	-	103	92	REXAM B	94		-	-	-	-
-	F.P	-	159	157	2nd St David New Inc	157½		-	-	-	-
-	F.P.	-	176	167	Do Equity Units	176	+5	-	-	-	-
§	F.P.	15.0	100	100	Singer&Frd AIM VCT	100		-	-	-	-
-	F.P.	-	15½	13½	Thistle Hotels Prf	15		-	-	-	-
-	F.P.	-	15	5	Xenova Warrants	13½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Dec 1	% chg on day	Nov 30	Year ago	Gross div yield %	Total return	52 week High	Low
Gold Mines Index (28)	1037.19	-1.7	1055.13	972.14	1.79	1040.11	1351.57	701.58
■ Regional Indices								
Africa (9)	1139.52	-5.9	1210.66	979.29	3.60	1145.91	1488.04	765.63
Australasia (9)	1201.13	-1.5	1219.00	982.44	2.52	1206.84	1600.53	815.93
Americas (11)	981.25	0.3	977.96	980.13	0.77	982.41	1317.41	647.88

Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92 † Partial. Latest prices were unavailable for this edition

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Dec 2	Day's chge%	Dec 1	Nov 30	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5507.2	-0.5	5537.5	5743.9	4970.7	2.93	2.51	1.98	21.64	136.93	2435.88
FTSE 250	4804.4	-0.4	4821.4	4901.7	4692.4	3.68	3.13	2.13	15.95	130.01	2085.56
FTSE 250 ex Inv Tr	4826.8	-0.4	4847.7	4923.4	4730.4	3.83	3.27	2.20	14.83	135.01	2104.30
FTSE 350	2619.0	-0.5	2632.6	2721.6	2396.3	3.05	2.61	2.01	20.42	66.04	2367.39
FTSE 350 ex Inv Tr	2624.5	-0.5	2638.4	2728.1	2399.6	3.06	2.62	2.02	20.20	66.57	1216.90
FTSE 350 Higher Yield	2509.4	-0.9	2532.1	2616.8	2382.1	4.11	3.50	1.92	15.83	84.08	1945.75
FTSE 350 Lower Yield	2729.6	-0.1	2732.8	2826.3	2422.8	1.94	1.66	2.20	29.27	49.97	1998.39
FTSE SmallCap	2036.77	-0.1	2039.45	2065.04	2278.94	4.06	3.32	2.00	15.42	57.79	1794.99
FTSE SmallCap ex Inv Tr	1992.54	-0.2	1996.19	2017.00	2284.35	4.43	3.63	2.09	13.48	61.10	1775.80
FTSE All-Share	2530.80	-0.5	2543.41	2626.86	2341.65	3.10	2.64	2.01	20.11	64.17	2321.78
FTSE All-Share ex Inv Tr	2539.13	-0.5	2552.27	2636.57	2348.88	3.12	2.67	2.02	19.80	64.94	1198.58
FTSE Fledgling	1129.71	+0.1	1128.63	1140.12	1244.50	3.91	3.21	1.44	22.23	33.08	1269.56
FTSE Fledgling ex Inv Tr	1132.60	—	1132.07	1142.00	1263.81	4.26	3.51	1.55	19.00	36.77	1279.47
FTSE All-Small	1157.82	-0.1	1158.75	1172.67	1291.73	4.02	3.30	1.87	16.57	1.31	1302.63
FTSE All-Small ex Inv Tr	1154.80	-0.1	1156.34	1167.98	1317.25	4.39	3.60	1.98	14.40	1.41	1308.31
FTSE AIM	807.0	-0.2	808.3	816.3	969.1	1.18	0.94	0.55	80.00†	9.57	749.99

■ FTSE Actuaries Industry Sectors

	Dec 2	Day's chge%	Dec 1	Nov 30	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(20)	3984.28	-3.5	4130.89	4270.15	4435.90	3.74	3.34	1.51	22.06	132.78	1859.35
12 Extractive Industries(6)	2706.28	+0.6	2691.33	2714.10	2942.83	5.06	4.65	1.99	12.43	130.45	872.90
15 Oil, Integrated(3)	4614.89	-4.0	4809.20	4983.85	4884.68	3.58	3.18	1.45	24.04	145.75	2214.40
16 Oil Exploration & Prod(11)	1593.23	-4.3	1664.04	1740.57	3583.22	3.45	3.01	0.96	37.87	48.95	997.19
20 GEN INDUSTRIALS(211)	1701.25	-0.6	1711.06	1764.66	1995.00	4.30	3.80	2.19	13.25	61.01	1017.15
21 Construction(38)	1244.44	-0.2	1247.30	1267.38	1315.84	4.12	3.33	2.97	10.20	38.34	1127.02
22 Building Matls & Merchs(26)	1533.88	+0.5	1526.46	1544.40	1784.67	4.90	4.23	2.12	12.02	61.92	853.52
23 Chemicals(23)	1903.02	+0.5	1894.45	1945.83	2458.52	4.82	4.51	1.53	16.99	73.57	989.17
24 Diversified Industrials(6)	1051.20	+0.5	1045.82	1103.07	1339.18	5.28	5.01	2.09	11.31	59.23	687.21
25 Electronic & Elect Equip(26)	2346.87	-1.3	2378.75	2527.70	2173.68	3.27	2.66	1.86	20.57	60.52	1314.60
26 Engineering(59)	2227.99	-1.5	2262.02	2335.42	2722.51	4.33	3.86	2.24	12.91	82.93	1465.18
27 Engineering, Vehicles(10)	3138.15	+0.8	3114.10	3175.81	3389.35	2.85	2.61	3.27	13.45	75.72	1747.73
28 Paper, Pckg & Printing(22)	1446.83	-0.8	1458.84	1495.56	2155.35	6.14	5.70	2.46	8.29	71.55	866.37
30 CONSUMER GOODS(90)	5667.32	—	5664.82	5844.18	4717.15	2.41	2.18	1.92	27.00	128.83	2265.26
32 Alcoholic Beverages(6)	3551.41	+0.4	3537.90	3740.74	3175.05	3.50	3.25	2.13	16.73	136.96	1423.20
33 Food Producers(26)	3488.21	-1.9	3555.15	3700.46	3274.41	2.57	2.23	2.31	21.03	85.38	1708.00
34 Household Goods & Texts(22)	2222.64	+0.1	2221.12	2274.82	2945.86	4.72	4.19	1.96	13.53	91.87	953.83
36 Health Care(13)	2405.59	-1.7	2446.59	2488.82	2194.28	2.16	1.99	2.18	26.57	46.87	1553.02
37 Pharmaceuticals(20)	9981.60	+0.9	9889.83	10138.46	7692.96	1.77	1.65	1.59	44.47	165.24	3596.35
38 Tobacco(3)	6741.14	-2.0	6881.85	7059.23	4561.08	5.10	4.25	2.04	12.03	210.91	1910.37
40 SERVICES(279)	3248.72	-0.6	3268.41	3356.53	2835.61	2.67	2.20	2.12	22.07	64.18	1803.68
41 Distributors(29)	1860.66	-1.1	1882.05	1927.21	2543.99	5.33	4.40	2.00	11.71	74.40	744.01
42 Leisure & Hotels(28)	3087.00	+0.2	3082.31	3085.87	3282.28	3.01	2.54	2.76	15.07	80.02	1763.66
43 Media(39)	4099.59	-0.3	4113.86	4188.16	4174.42	2.54	2.16	2.17	22.69	85.89	1566.30
44 Retailers, Food(13)	2785.51	-1.2	2819.17	2874.61	2693.11	3.29	2.83	2.13	17.79	72.84	1921.08
45 Retailers, General(49)	1933.77	-3.6	2006.11	2023.88	2335.16	3.96	3.17	2.11	15.00	60.76	1196.15
46 Telecommunications(8)	4720.72	+0.2	4710.39	4931.06	2610.17	1.91	1.58	1.70	38.57	51.74	2317.34
47 Breweries, Pubs & Rest.(24)	3481.13	+0.2	3473.88	3574.48	3429.60	3.56	2.85	2.37	14.84	73.01	1791.60
48 Support Services(64)	4178.19	-0.6	4203.83	4337.44	3380.96	1.49	1.25	2.71	31.09	49.98	2768.24
49 Transport(25)	3493.83	+0.1	3490.67	3558.23	2898.71	3.04	2.57	2.04	20.21	83.78	1577.83
60 UTILITIES(21)	4330.96	-0.3	4342.48	4386.98	3374.49	3.71	3.14	1.75	18.22	120.63	2102.35
62 Electricity(8)	4814.85	—	4815.44	4856.84	3762.53	4.20	3.42	1.86	16.03	148.20	2867.57
64 Gas Distribution(2)	3556.74	-0.3	3567.34	3628.18	2488.29	1.90	1.52	‡	‡	54.02	2073.23
68 Water(11)	3552.70	-0.7	3578.14	3599.88	3208.59	4.72	4.35	2.38	11.15	126.63	2232.31
69 NON-FINANCIALS(621)	2579.11	-0.7	2598.30	2671.24	2388.97	3.03	2.61	1.97	20.97	64.03	2125.47
70 FINANCIALS(105)	4850.52	+0.1	4843.33	5074.59	4574.29	3.40	2.82	2.16	17.00	136.33	2260.69
71 Banks, Retail(12)	7192.16	+0.1	7184.16	7560.30	6724.91	3.55	2.84	2.12	16.59	199.47	2547.77
73 Insurance(15)	2177.36	+0.4	2169.27	2280.24	2027.51	3.24	3.06	2.01	19.19	77.32	1825.34
74 Life Assurance(8)	6925.25	+0.4	6898.49	7170.44	5543.01	2.78	2.40	2.70	16.62	167.30	3127.86
77 Other Financial(26)	3600.83	+0.2	3594.81	3731.72	3626.02	3.08	2.55	2.57	15.80	101.25	2219.49
79 Property(44)	1695.09	-0.5	1703.74	1740.23	2147.22	3.94	3.33	1.60	19.87	48.65	1137.11
80 INVESTMENT TRUSTS(115)	3465.01	+0.2	3458.49	3544.98	3325.87	2.34	1.91	1.18	45.28	61.11	1272.52
89 FTSE All-Share(841)	2530.80	-0.5	2543.41	2626.86	2341.65	3.10	2.64	2.01	20.11	64.17	2321.78
105 FTSE All-Share ex Inv Tr(726)	2539.13	-0.5	2552.27	2636.57	2348.88	3.12	2.67	2.02	19.80	64.94	1198.58
Information Technology	1292.85	+0.8	1283.16	1336.08	—	0.73	0.58	4.10	42.01	7.09	1299.40

■ Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5550.0	5534.0	5556.8	5513.0	5527.4	5529.1	5508.8	5514.4	5565.3	5489.5
FTSE 250	4831.1	4826.7	4829.6	4817.9	4813.7	4813.5	4809.7	4802.9	4833.2	4799.2
FTSE 350	2636.4	2631.9	2641.0	2622.6	2627.9	2628.5	2620.1	2621.7	2643.9	2612.4
FTSE SmallCap	2042.96	2041.70	2041.33	2039.56	2039.08	2038.73	2038.00	2036.38	2043.04	2036.38
FTSE All-Share	2549.00	2542.90	2551.25	2534.21	2539.10	2539.84	2531.80	2533.27	2553.93	2524.72

Time of FTSE 100 Day's high: 9:08:15 Day's low: 15:15:15. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 4648.7 (05/10/98)
Time of FTSE All-Share Day's high: 10:47:00 Day's low: 15:15:00. FTSE All-Share 1998 High: 2685.20 (20/07/98) Low: 2166.10 (05/10/98)

Further information is available on http://www.ftse.com.

"FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	582	552	-2
AMVESCAP	1,600	445	-7
ASDA Group	6,500	154½	-1½
Abbey National	2,900	1148	-17
Alliance & Leicester	1,300	858	-13
Allied Domecq	1,900	512	+2
Allied Zurich	6,000	817	-2
Anglian Water†	373	860	-5
Assoc. Brit. Foods	2,600	551	-4½
BAA	2,200	657	+10½
BOC	1,500	872	
BG	4,100	408½	-6
BP	27,500	824	-30½
BSkyB	4,500	490	-1½
BT	3,400	793	-3
BTR	8,900	113¾	-2¼
Bank of Scotland	7,200	840	+8
Barclays	8,900	1319	-8
Bass	1,600	813	+3
Billiton	4,200	129½	+½
Boots	4,000	940	-34
Britannic Assurance†	363	1270	+40
Brit. Aerospace	10,300	477½	-20¼
British Airways	10,000	391	-4
Brit. Amer. Tobacco	3,500	527	-12½
British Energy	1,400	436	-4
British Land	1,600	487	+1½
CGU	3,200	918½	-12½
CMG†	76	1415	+30
COLT Telecom	729	746	+2½
Cable & Wireless	9,200	740	+12
Cadbury Schweppes	1,700	869	-11
Carlton Comms.	3,300	492½	+14½
Centrica	13,800	124	-1
Compass	1,200	611	+18
Diageo	11,000	637	+2½
EMI	3,600	370½	+5½
Dixons†	3,500	758	+18
Foreign & Col. I T	1,100	180	+1½
General Electric	5,600	451	-7
Gallaher†	1,300	416	-8
Glaxo Wellcome	6,000	1884	+15
Granada	3,400	849	+5½
GUS	3,100	574	-52
GRE	4,800	321	+4
GKN	981	670	+23
HSBC (75p shs)	1,800	1545	+9
HSBC (HK$10)	2,000	1458	+10
Halifax	3,400	841	+8
Hays	1,700	485	-30
ICI	7,000	540	+6
Imperial Tobacco†	1,300	623	-12
Kingfisher	4,900	545	-8½
Ladbroke	2,100	234	
Land Securities	1,600	782	-2
Legal & General	2,000	710	+12
Lloyds TSB	12,500	791	
LucasVarity	1,200	203½	-4½
Marks & Spencer	12,000	400	-15¼
Misys	1,900	404	-11½
NatWest Bank	1,500	1064	+4
National Grid	3,400	471	-2½
National Power	3,400	520	+1½
Norwich Union	3,400	411	-3
Nycomed Amersham	432	367½	-11½
Orange	3,200	598½	-1½
Pearson	2,500	1061	-9
P & O	979	701	-2
PowerGen	1,500	839	-13
Prudential	2,700	800	+6
Railtrack	2,200	1602	-18
Reckitt & Colman	554	838½	+2½
Reed Intl.	9,100	453½	-8½
Rentokil Initial	3,000	288	-1
Reuters	5,000	552	-10
Rio Tinto	2,900	709	+3
Rolls Royce	12,000	235	-5
Royal & Sun Alliance	4,000	480	-8½
Royal Bank Scotland	2,000	870	+14
Safeway	1,700	297½	-1½
Sainsbury	3,100	478	-10
Schroders	[illegible]	1196	-4
Schroders N/V	[illegible]	985	+5
Scottish & Newcastle	949	700	+4½
Scottish Power	4,300	857	+29½
Securicor	975	470	-2
Sema	[illegible]	470	+20
Severn Trent	431	1030	-4
Shell Transport	14,300	348	+10½
Siebe	27,600	201	-9
SmithKline Beecham	8,500	747½	+17½
Smiths Inds.	3,400	840	+15
Southern Electric	311	627	-20
Stagecoach	4,100	221	-2
Standard Chartered	4,300	618	-8
Sun Life & Provincial	376	493	-7
Telewest Comms.	17,100	135	+2
Tesco	11,100	174	+1
Thames Water	1,600	1129	-10
Tomkins	3,500	285½	+1½
Unilever	6,600	587	-17
Utd. News & Media	6,700	568	-11½
United Utilities	684	854	-9
Vodafone	8,400	956	+4
WPP	847	330	-1
Whitbread	1,100	791	-14
Williams	1,400	387	-5
Woolwich	1,600	357½	-2
Zeneca	1,300	2405	-1

Based on trading volume for the FTSE 100 constituent companies and investors yesterday until 4.30pm † Indicates a FTSE 100 index constituent. [illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 2 / Sch)

		+/-	High	Low	Yld	P/E
AusAir	305	+15	466.85	285	1.3	15.2
ATabak	878	+18	915	512	3.2	12.5
BWT	2,399	-1	2,700	1,830	1.2	21.2
BkAust	600	—	1,616	458	2.3	8.5
BUAG	543.25	+2.35	1,030	470.05	4.6	8.0
BauUn	665	+28	1,605	585	3.3	18.4
EA Gen	2,500	+60	4,570	1,857	0.7	21.4
EVN	1,532	+8.20	2,102	1,485	1.6	14.7
ErstBk	656xr	-12	865	485.15	2.5	—
Jenbac	590	...	650	330	3.4	20.3
Lenzing	718	+15	970	520	—	—
Leykam	277	+1.60	395	209	—	—
Mayr-M	592.80	+35.60	982	460	2.9	10.2
OMV	1,089.60	+15.60	1,993	952	2.4	13.1
Oest B	698.05	+18.65	882.50	585	2.7	18.5
OeElkA	1,896	+61.10	2,230	998	0.8	—
RadexH	314.30	+1.30	600	309.50	5.1	8.4
SteyrD	352	+.90	484	318	2.3	12.1
Univ B	348	+17	483	304	2.3	36.9
VA Tec	1,020	+23	2,264.9	845	3.7	10.8
VerbAr	542.15	+18.15	880	419	1.5	18.4
VA St	291.40	+1.40	578.00	269.50	4.1	4.9
WSdPT	1,384	-16	1,856	1,025	2.9	—
Wienbg	2,271.95	+19.85	3,275	1,982	2.0	18.5

BELGIUM/LUXEMBOURG (Dec 2 / Frs.)

[illegible]

CZECH REP (Dec 1 / Koruna)

		+/-	High	Low	Yld	P/E
CesSpo	88.27	+3.51	346.80	59.58	11.6	3.5
Cez	609.60	+5	1,153	424	—	4.4
Cokldr	6,850	—	6,200	2,850	1.2	38.1
IPB	104	-1	226	88.32	7.7	6.9
KomBnk	355.10	-10.70	1,305	231.58	28.3	1.3
Tabak	7,249	-72	9,900	6,000	11.9	12.3

DENMARK (Dec 2 / Kr)

[illegible]

FINLAND (Dec 2 / Mkk)

[illegible]

FRANCE (Dec 2 / Frs.)

[illegible]

GERMANY (Dec 2 / Dm.)

[illegible]

GREECE (Dec 2 / Drachma)

		+/-	High	Low	Yld	P/E
Aegek	1,430	-70	2,119	305	4.0	10.6
AlphCr	26,955	+560	32,528	12,927	2.8	17.7
CommBk	27,150	+150	33,600	8,050	1.1	41.1
DeltaD	3,570	+5	5,664	2,800	2.0	31.6
ErgoBk	27,795	+680	35,300	12,910	2.9	17.5
HellBo	7,750	+180	17,500	5,705	1.0	30.3
HelSgr	2,550	+25	4,190	1,880	2.8	22.4
HelTel	7,230	+230	[illegible]	[illegible]	2.7	21.4
HerCem	7,375	—	9,800	5,200	1.9	30.7
IonBnk	13,100	+60	19,500	4,600	—	—
Mytiln	2,640	+25	2,957	1,115	0.9	49.4
NatBkG	50,280	+255	59,300	15,653	1.8	25.5
SilvBy	10,350	+60	[illegible]	[illegible]	0.8	43.2

IRELAND (Dec 2 / Punt)

		+/-	High	Low	Yld	P/E
AlldIrl	10.25	+.25	11.65	2.17	1.9	23.7
AvondM	2.08	—	3.57	2.08	2.5	—
BankIr	13.35xd	+.25	15.90	2.14	1.9	18.8
CRH	10.35	+.30	11.30	7	1.2	21.3
Clondal	4.85	+.05	6	3.80	1.6	10.3
DCC	5.73	+.03	7.10	2	1.8	16.0
FyffesL	1.40	—	2.12	1.03	1.7	13.3
Greenc	3	+.15	4.60	2.10	2.6	13.4
IWP	2	—	4.67	1.90	3.4	7.8
IndepN	2.40	+.13	4.75	2	3.4	14.6
IrPerL	5.75	+.20	10.30	2.32	2.4	14.6
Kerry	9.46	—	11.40	7.20	0.5	24.0
Ryanair	3.65	-.05	6.20	3.15	—	19.6
Smurft	1.33	—	15	0.84	3.3	18.2
TullOil	0.80	—	1.66	0.45	—	—
Waterfd	0.63	+.01	1.25	0.28	2.6	14.7

ITALY (Dec 2 / Lire)

[illegible]

NETHERLANDS (Dec 2 / Fls.)

[illegible]

NORWAY (Dec 2 / Kroner)

[illegible]

POLAND (Dec 2 / Zloty)

[illegible]

PORTUGAL (Dec 2 / Escudo)

[illegible]

SPAIN (Dec 2 / Pts.)

[illegible]

SWEDEN (Dec 2 / Kronor)

[illegible]

SWITZERLAND (Dec 2 / Frs.)

[illegible]

TURKEY (Dec 2 / Tk Lira)

[illegible]

PACIFIC

JAPAN (Dec 2 / Yen)

[illegible]

HONG KONG (Dec 2 / H.K.$)

[illegible]

INDONESIA (Dec 2 / Rupiah)

[illegible]

MALAYSIA (Dec 2 / MYR)

[illegible]

NEW ZEALAND (Dec 2 / NZ $)

[illegible]

SINGAPORE (Dec 2 / S$)

[illegible]

AUSTRALIA (Dec 2 / Aust$)

[illegible]

SOUTH KOREA (Dec 2 / Won)

[illegible]

TAIWAN (Dec 2 / TW $)

		+/-	High	Low	Yld	P/E
CL Ins	117.50	—	176.16	90	1.8	—
CH Bnk	52.50xd	+1	104	47	1.9	—
ChiDev	56	+1	86.62	55	—	—
ChSti	21	+10	25.60	19.10	5.2	—
FstBk	53xd	+.50	91.63	45.20	1.9	—
NYPct	49.20	+.90	56.95	29.10	—	—
ShK U	58.50	+.50	[illegible]	43	2.3	—
TatSed	77	...	121.10	56.50	—	—

THAILAND (Dec 2 / Baht)

		+/-	High	Low	Yld	P/E
AdvInF	202	+2	410	145	—	18.7
BgkBkF	63	-3	199	28	—	15.0
BgkLdF	6.40	...	7.80	0.80	—	—
KrThF	18.75	-1.50	26	4.40	—	—
LndHsF	26.50	-3.25	42	6.30	—	—
Phatra	4.20	+.10	45.50	2.40	—	0.7
SimCemF	704	-78	824	192	—	—
SiamCi	75.50	-3	143	26	—	—
SiaCBkF	18	-1	121	8.60	19.4	1.0
TeleAs	12.50	—	26.50	6.30	—	—
ThFrmF	59	-4.50	173	15.50	18.2	4.1

AMERICAS

CANADA

TORONTO (Dec 2 / Can $)

4 pm close

[illegible]

MONTREAL (Dec 2 / Can $)

4 pm close

[illegible]

MEXICO (Dec 2 / Peso)

12.30 pm

[illegible]

AFRICA

SOUTH AFRICA (Dec 2 / Rand)

[illegible]

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY DECEMBER 1 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY NOVEMBER 30 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	198.38	-1.4	177.97	152.89	173.06	209.29	-1.6	3.48	201.09	180.61	156.25	176.78	212.70	219.96	163.86	198.32
Austria (22)	178.95	-2.2	160.54	137.91	156.11	156.00	-2.9	2.24	182.92	164.29	142.13	160.79	160.68	253.73	166.45	184.18
Belgium (22)	376.50	-1.5	337.76	290.16	328.45	321.35	-2.3	2.10	382.24	343.31	297.00	336.00	328.89	398.52	250.39	252.57
Brazil (32)	163.23	-2.2	146.44	125.80	142.40	360.91	-2.2	2.47	166.95	149.95	129.72	146.76	369.05	269.34	102.68	225.79
Canada (119)	198.82	1.7	178.36	153.22	173.44	220.67	1.9	1.77	195.44	175.53	151.85	171.79	218.45	248.78	159.94	211.44
Denmark (34)	456.08	-0.6	409.15	351.48	397.87	395.75	-1.4	1.77	458.89	412.15	356.56	403.38	401.19	537.33	418.41	418.41
Finland (28)	482.60	-1.1	432.94	371.92	421.00	516.74	-1.8	1.77	487.79	438.11	379.01	428.78	526.37	506.46	267.59	299.60
France (75)	306.13	-3.5	274.63	235.92	267.06	270.20	-4.3	2.31	317.35	285.02	246.58	278.95	282.31	345.18	225.24	234.22
Germany (55)	267.28	-3.7	239.77	205.98	233.16	233.16	-4.5	1.39	277.59	249.32	215.69	244.01	244.01	325.61	218.59	223.68
Greece (35)	309.68	-1.1	277.82	238.66	270.16	626.52	-1.6	1.39	313.19	281.29	243.35	275.30	637.01	333.20	211.47	—
Hong Kong, China (67)	305.74	-4.1	274.29	235.63	266.72	304.02	-4.1	4.30	318.86	286.38	247.75	280.29	316.98	389.07	195.64	360.54
Indonesia (25)	48.04	-0.8	43.10	37.02	41.91	220.30	-0.1	1.44	48.44	43.51	37.64	42.58	220.64	93.98	19.04	93.81
Ireland (16)	484.70	-3.5	434.83	373.54	422.84	460.93	-4.3	2.11	502.28	451.12	390.27	441.52	481.69	560.44	382.20	382.20
Italy (53)	160.23	-3.3	143.74	123.48	139.78	198.77	-4.1	1.40	165.73	148.85	128.77	145.68	207.22	184.49	109.90	110.39
Japan (446)	98.01	0.8	87.92	75.53	85.50	75.53	0.0	1.00	97.24	87.33	75.55	85.47	75.55	109.73	76.83	103.05
Mexico (29)	1070.30	-0.8	960.17	824.85	933.69	11750.63	-0.4	2.17	1078.34	968.50	837.86	947.88	11801.16	1803.07	787.15	1713.49
Netherlands (27)	469.99	-3.7	421.63	362.21	410.01	405.70	-4.4	2.30	487.83	438.14	379.04	428.81	424.51	562.38	391.03	408.73
New Zealand (18)	55.64	-3.1	49.91	42.88	48.54	58.29	-2.6	5.18	57.43	51.58	44.62	50.48	57.80	83.04	45.68	79.60
Norway (38)	220.90	-3.4	198.17	170.24	192.71	222.81	-3.9	2.59	228.73	205.43	177.72	201.08	231.74	357.71	181.86	322.37
Philippines (22)	86.64	-2.6	77.73	66.77	75.58	168.91	-2.8	0.91	88.99	79.93	69.15	78.23	174.74	106.98	42.48	84.39
Portugal (18)	252.52	0.7	226.54	194.61	220.29	297.50	0.0	1.12	250.86	225.13	194.76	220.33	297.50	299.39	194.13	—
Singapore (41)	208.58	-3.2	187.12	160.74	181.96	158.02	-3.4	2.00	215.52	193.57	167.46	189.45	163.58	264.82	102.45	249.90
South Africa (40)	197.16	-4.0	176.88	151.95	172.00	243.91	-4.5	3.81	205.45	184.52	159.63	180.59	255.51	346.20	151.55	269.92
Spain (30)	374.85	-2.3	336.28	288.89	327.01	405.52	-3.0	1.96	383.54	344.48	298.01	337.14	418.08	417.73	266.90	270.47
Sweden (46)	498.57	-2.6	447.27	384.24	434.94	597.26	-2.9	1.86	511.99	459.84	397.81	450.05	614.88	528.19	379.18	480.63
Switzerland (30)	394.20	-2.9	353.64	303.80	343.89	336.16	-4.0	1.27	405.82	364.57	315.39	356.81	350.18	439.48	307.73	326.94
Thailand (35)	22.69	-2.0	20.36	17.49	19.79	31.82	-1.9	2.97	23.15	20.79	17.98	20.35	32.43	33.84	8.15	24.32
United Kingdom (206)	355.37	-3.3	318.80	273.87	310.01	318.80	-3.4	3.08	367.42	330.00	285.48	322.97	330.00	401.84	307.96	326.00
USA (620)	481.55	1.0	432.01	371.12	420.09	481.55	1.0	1.35	476.73	428.17	370.41	419.05	476.73	488.63	378.74	396.96
Americas (800)	428.72	1.0	384.61	330.40	374.00	363.58	1.0	1.37	424.45	381.22	329.79	373.10	359.92	437.03	343.40	360.18
Europe (737)	336.58	-3.1	301.95	259.40	293.63	305.77	-3.7	2.20	347.50	312.10	270.00	305.46	317.52	386.24	279.29	283.69
Eurobloc (346)	97.62	-3.2	87.57	75.23	85.16	92.17	-4.0	1.86	100.86	90.59	78.37	88.66	95.98	113.28	81.53	—
Nordic (146)	458.69	-2.0	411.49	353.50	400.14	462.84	-2.5	1.93	468.04	420.37	363.66	411.42	474.28	555.97	360.04	423.54
Pacific Basin (731)	105.72	0.1	94.84	81.47	92.23	83.56	-0.6	1.55	105.67	94.91	82.11	92.89	84.08	119.48	82.88	113.11
Euro-Pacific (1468)	201.63	-2.2	180.88	155.39	175.89	168.82	-2.8	2.00	206.19	185.18	160.20	181.24	171.63	220.19	166.00	184.27
North America (739)	462.51	1.0	414.92	356.44	403.48	463.62	1.1	1.36	457.76	411.14	355.68	402.38	458.82	469.20	367.39	385.12
Europe Ex. UK (529)	315.58	-3.1	283.11	243.21	275.30	290.13	-3.9	1.78	325.59	292.42	252.98	286.20	301.73	388.32	250.03	254.61
Europe Ex. Eurobloc (391)	91.65	-3.1	82.22	70.63	79.95	90.85	-3.4	2.58	94.54	84.91	73.45	83.10	94.06	103.93	77.40	—
Europe Ex. UK Ex. Eurobloc (183)	93.96	-2.6	84.29	72.41	81.97	89.98	-3.5	1.51	96.48	86.65	74.96	84.81	93.17	109.21	75.16	—
Pacific Ex. Japan (285)	179.96	-2.7	161.44	138.69	156.99	183.28	-2.8	3.89	184.96	166.14	143.73	162.60	188.57	217.77	128.26	205.23
World Ex. Eurobloc (1962)	100.13	0.1	89.83	77.17	87.36	99.25	-0.1	1.62	100.04	89.85	77.73	87.94	99.32	103.16	83.09	—
World Ex. US (1688)	201.63	-2.1	180.88	155.39	175.89	171.87	-2.8	2.01	205.86	184.89	159.95	180.96	176.47	221.91	165.95	187.93
World Ex. UK (2100)	285.72	-0.1	256.32	220.20	249.25	255.84	-0.4	1.50	285.09	256.95	222.29	251.48	256.68	298.02	234.66	248.52
World Ex. Japan (1862)	388.28	-0.6	348.33	299.23	338.72	377.33	-0.8	1.74	390.69	350.80	303.48	343.33	380.32	411.23	318.78	331.47
The World Index (2308)	291.77	-0.5	261.75	224.86	254.53	261.57	-0.7	1.88	293.08	263.23	227.72	257.63	263.44	306.58	242.08	255.12

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Emerging markets: IFC investable indices

Dollar terms

Dec 1 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	883.78	-0.2	-20.8
Brazil	334.49	-2.0	-30.7
Chile	486.19	-1.4	-22.8
Colombia[1]	434.40	+2.0	-47.4
Mexico	455.79	-1.0	-42.2
Peru[2]	151.79	-2.6	-31.5
Venezuela[3]	371.52	+0.1	-59.4
East Asia			
China[4]	27.71	-3.6	-48.9
India[5]	58.97	-0.2	-29.3
Indonesia[6]	24.58	-0.4	-28.7
Korea[3]	37.72	-1.9	+57.0
Malaysia	84.39	+4.1	-7.4
Pakistan[9]	106.71	+1.2	-57.0
Philippines	120.75	-2.5	+7.1
Sri Lanka[10]	77.60	-0.6	-33.3
Taiwan, China[8]	126.23	-1.0	-10.5
Thailand	63.16	-2.9	+34.3
Europe			
Czech Rep	46.87	-2.5	-14.3
Greece	555.40	-1.1	+71.4
Hungary[11]	246.70	-6.9	-21.6
Poland[12]	472.77	-3.0	-20.8
Portugal	286.55	+0.7	+35.8
Russia	27.85	-6.1	-81.4
Slovakia	41.48	+4.6	-58.2
Turkey[14]	147.48	-2.7	-52.8
Mideast/Africa			
Egypt	63.57	-0.1	-31.8
Israel	100.13	-1.8	-17.7
Jordan	210.75	-0.7	+0.2
Morocco	169.20	-0.0	+29.9
S. Africa[13]	131.05	-3.4	-27.1
Zimbabwe[15]	98.01	-0.8	-81.9
Regions			
Composite	166.94	-1.7	-24.0
Latin America	453.09	-1.3	-33.1
Asia	99.20	-1.5	-7.9
EMEA	112.64	-2.2	-23.7
Europe	142.05	-1.7	-24.6
Eastn Europe	55.05	-4.5	-60.8
ME & Africa	55.16	-2.7	-22.9
Comp + Malay	189.08	-1.3	-23.1
Asia + Malay	100.78	-0.4	-6.5

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

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NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $

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4 pm close December 2

NEW YORK STOCK EXCHANGE PRICES

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Sector		SETT 02-12-1998	Close 02-12-1998	Previous 01-12-1998	Change on day	% Change	1998 HIGH	1998 LOW
Financials	USD	2021.55	2011.55	2021.48	-9.93	-0.49	2451.60	1445.56
IN-FIN	DEM	2371.87	[illegible]	2381.53	-27.72	-1.16	3060.15	1650.17
Non-durable goods	USD	1742.30	1736.55	1758.21	-21.66	-1.23	1825.75	1234.52
IN-GOODS	DEM	2044.23	[illegible]	2071.37	-39.37	-1.90	2195.63	1529.86
Oils	USD	1287.50	1263.02	1302.52	-39.50	-3.03	1638.96	1132.90
IN-OIL	DEM	1487.14	1477.84	1534.51	-56.63	-3.68	2227.16	1361.56
Pharma-chemicals	USD	1445.24	1441.83	1446.98	-5.15	-0.35	1609.63	1258.38
IN-PHARMA	DEM	[illegible]	1687.14	1704.70	-17.56	-1.03	2115.51	1445.52
Telecoms	USD	[illegible]	2291.69	2293.21	-1.52	-0.06	2548.47	1495.47
IN-TELCO	DEM	[illegible]	[illegible]	2781.65	-20.66	-0.74	3302.06	1853.24

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e-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
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هكذا من الاصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 1	Nov 30	Nov 27	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9133.54	9116.55	9333.08	9374.27 (23/11)	7539.07 (31/8)	9374.27 (23/11/98)	41.22 (8/7/32)
Home Bonds	106.84	107.00	106.76	107.82 (5/10)	104.42 (11/5)	107.82 (5/10/98)	54.99 (1/10/81)
Transport	3047.84	3031.23	3077.51	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	305.17	303.32	308.93	320.51 (8/10)	282.65 (9/1)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 9214.65 (9349.53) Low 8934.52 (9047.07) (Theoretical)
Day's high 9141.27 (9333.08) Low 9067.82 (9116.55) (Actual)

Standard and Poors	Dec 1	Nov 30	Nov 27	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1175.28	1163.63	1192.29	1192.29 (27/11)	927.69 (9/1)	1192.29 (27/11/98)	4.40 (1/6/32)
Industrials	1405.15	1388.66	1421.33	1421.33 (27/11)	1077.40 (9/1)	1421.33 (27/11/98)	3.52 (30/6/32)
Financial	127.65	127.77	131.64	147.86 (14/7)	95.80 (8/10)	147.86 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	573.33	571.60	583.00	600.75 (17/7)	477.20 (8/10)	600.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	663.00	663.58	673.92	753.87 (22/4)	563.75 (8/10)	753.87 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	2003.75	1949.54	2016.44	2016.44 (27/11)	1419.12 (8/10)	2016.44 (27/11/98)	54.87 (3/10/74)
Russell 2000	398.74	397.75	402.09	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Nov 27	Nov 20	Nov 13	Year ago
Dow Jones Ind. Div. Yield	1.63	1.66	1.69	1.74
	Nov 18	Nov 11	Nov 4	Year ago
S & P Ind. Div. yield	1.25	1.29	1.30	1.50
S & P Ind. P/E ratio	33.53	32.98	32.70	25.38

US DATA

MARKET ACTIVITY

● Volume (million)	Dec 1	Nov 30	Nov 27
NYSE	780.240	699.220	255.970
Amex	28.476	27.575	13.252
NASDAQ	1031.97	1114.51	516.201

NYSE	Dec 1	Nov 30	Nov 27
Issues Traded	3,563	3,540	3,262
Rises	1,513	1,075	1,474
Falls	1,571	2,042	1,193
Unchanged	479	423	595
New Highs	73	74	83
New Lows	53	43	14

NYSE TRADING ACTIVITY

Volume : 780,240,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
AmOnLine	15,193,500	89⅝	+2⅛
Compaq	14,369,400	34⅝	+1⅝
Sears	13,558,300	77⅝	−3⅛
Mobil	12,125,900	83⅝	−2⅛
Monsanto	10,460,200	43⅛	−2⅝
Citigrp	9,229,100	59	−⅛
Cendant	8,778,500	19⅝	+⅛
PhMorr	7,531,900	57⅝	+1⅛
Pepsico	6,810,700	41⅛	+2⅝
Schlmb	6,573,300	43⅛	−1⅝

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
WDigital	17⅞	+4⅝	+35.4
CHS Elect	17⅝	+3⅛	+20.7
CKE	28⅞	+4⅝	+17.9
FruitLoom	16⅞	+1⅞	+13.1
MayLem	34⅝	+3⅝	+10.7
Downs			
PolStandMax	17⅝	−1⅞	−10.0
TotADR	55⅝	−5⅝	−9.2
RussBerrie	20⅞	−1⅞	−7.5

NASDAQ TRADING ACTIVITY

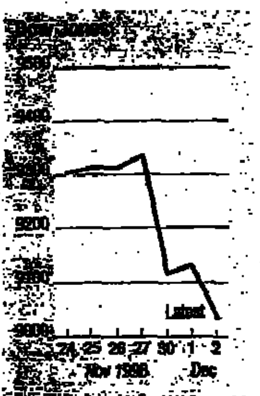
Volume :1,031,966,000

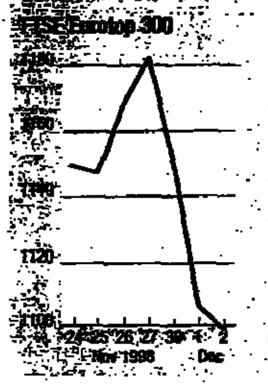
ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
DellCmp	25,128,900	64⅞	+4
Micsft.	21,437,000	129⅞	+7⅞
Intel	19,113,200	116	+7⅝
CiscoSys	17,627,600	79⅝	+4⅝
WrldCm	16,494,900	82⅝	+3⅝
SunMic	16,334,800	79⅞	+5⅝
Sppbeard	14,207,200	25⅛	−⅛
3Com	13,434,400	42⅝	+4⅛
Oracle	13,138,400	36⅞	+2⅞
Yahoo	12,284,500	208⅝	+14⅝

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
AmtechCp	12⅝	+3⅝	+38.8
Daisytek	27	+5⅝	+24.1
800-JR Cig	17⅝	+2⅝	+19.0
Read-Rite	15⅞	+1⅝	+13.0
Downs			
Twinlab	13	−3⅝	−21.8
ElctSciCp	10⅛	−1⅛	−12.0
PacSunCal	13⅝	−1⅛	−10.5
DoubleClk	36⅛	−4⅛	−10.3





JAPAN

	Dec 2	Dec 1	Nov 30	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	14586.62	14835.41	14883.70	17264.34	12879.97	38915.9	85.25

Day's high: 15011.68. Day's low: 14781.78.

TOKYO TRADING ACTIVITY

Volume : 324,000,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Sakura	6,880,000	321	+2
Taikisha	6,405,000	700	+20
NpSH	5,599,000	223	−2
FujiHvy	4,163,000	597	−7
NomSH	4,148,000	183	−2
AsahiBk	3,810,000	477	+18
TkGas	3,834,000	294	+3
BToklM	3,558,000	1339	+6
Nomura	3,553,000	1229	+20
NEC	3,538,000	1030	−17

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
KokoPh	445	+37	+7.5
Hisokk	369	+23	+6.6
Downs			
RoFds	540	−34	−5.9
Chiyoda	263	−16	−5.7
CSK	2730	−130	−4.5
AmtpnEl	168	−8	−4.5
MiEAS	125	−5	−3.8
CasioC	891	−35	−3.8

FRANCE

	Dec 2	Dec 1	Nov 30	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3849.91	3888.34	3843.38	4388.48	2862.54	4388.48	984.61

Day's high: 3729.55. Day's low: 3828.42.

PARIS TRADING ACTIVITY

Volume : 577,320,230

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
TotalB	3,663,210	590	−28
FrTele	2,880,428	390	−5
RhonPA	1,819,298	256.1	−7.3
Usinor	1,353,668	80.5	−1.5
Alcatel	1,238,946	725	−15
ElfAqu	1,085,824	680	−13
Axa	901,554	693	−17
BNP	844,336	425	−10.8
Vendi	550,429	1224	−23
Scnedr	538,919	331	−2

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
STMicro	382	+23	+6.4
DassSy	228	+10	+4.6
GuAngr	680	+30	+4.6
Seita	340	+13	+4.0
Downs			
Sanofi	930	−70	−7.0
TotalB	590	−28	−4.5
Sagem	3650	−149	−3.9
RemyC	91.5	−3.4	−3.6

GERMANY

	Dec 2	Dec 1	Nov 30	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	4691.69	4781.73	5022.70	6171.43	3896.08	6171.43	931.18

Day's high: 4678.14. Day's low: 4692.83.

FRANKFURT TRADING ACTIVITY

Volume : (a)

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Dt Bk	938,548	95.55	−4.55
Commzbk	783,942	50.2	−2.3
DaimCh	697,451	147.2	−5.3
Bayer	623,821	65.9	−2
BASF	620,757	59.75	−1.25
Siemens	416,271	112.3	−2.5
DresBk	408,678	68	−3
Dt Tel	371,771	47.7	+1.1
Lufthns	357,417	35	−1
Veba	323,458	88.6	−2.6

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
DBV Br	580	+30	+5.5
Jenoptk	36.3	+1.7	+4.9
Metro	103.5	+3.5	+3.5
Downs			
B'sdorf	105	−9	−7.9
BayHyV	129	−8.5	−6.2
Pfeiffer	17.8	−1	−5.3
Viag	945	−52	−5.2
Douglas	100.5	−5.5	−5.2

UK

	Dec 2	Dec 1	Nov 30	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5507.2	5537.5	5743.9	6179.00	4648.70	6179	986.9

Day's high: 5585.3. Day's low: 5489.5

LONDON TRADING ACTIVITY

Volume : 1,115,800,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Marley	58,920,770	123	+17½
Br Petroleum	27,582,390	201	−9
Diageo	27,538,600	874	−38½
Monument Oil	24,883,170	179½	+10
Pierce	21,156,990	36¼	−12
SkyePharma	20,362,880	9½	+2
Br Biotech	18,124,080	83½	+½
TeleWest	18,083,830	35	−2
Pmcr Fazzoli	17,051,900	135	+2
Shell	16,278,160	180	−2½

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Cortecs	15	+3½	+30.4
Mackintosh Ah	106½	+17½	+19.2
Total Sys	70½	+11	+18.5
Memory Corp	29½	+4½	+18
Downs			
Sentry Frm	43½	−20½	−32
Arcadia	212½	−75½	−26.2
Hornby	147½	−37½	−20.3
ISA Intl	33	−7	−17.5

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Dec	1175.40	1174.20	+11.7	1177.70	1167.50	146,676	380,310
Mar	1180.00	1185.80	+11.7	1181.50	1180.00	20,423	48,842
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open Int.**
Dec	14890.0	14980.0	+90.0	15030.0	14770.0	29,350	169,233
Mar	14820.0	14880.0	+60.0	14960.0	14720.0	5,296	30,700

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Dec	3747.5	3653.0	−27.0	3763.0	3636.5	80,010	190,867
Jan	3740.0	3662.0	−27.0	3745.0	3740.0	21	2,946
DAX							
Dec	4869.0	4711.0	−59.00	4887.0	4680.0	32,870	80,729
Mar	4905.0	4750.0	−62.50	4917.5	4726.0	657	5,984

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Dec	705.00	696.00	−8.00	705.00	682.00	35,252	209,984
Jan	697.75	689.75	−1.50	705.00	689.75	848	8,382
SOFFEX							
Dec	6925.0	6743.0	−26.0	6933.0	6657.0	41,730	149,813
Mar	6925.0	6772.0	−46.0	6936.0	6699.0	1,107	9,365

WORLD MARKETS AT A GLANCE

Country	Index	Dec 2	Dec 1	Nov 30	1998 High	1998 Low	Yield	P/E
Argentina	General	18606.71	18680.44	18658.18	23486.47 23/3	12303.14 10/9	3.24	13.3
Profit-takers active in the absence of support from overseas markets.								
Australia	All Ordinaries	2761.0	2734.1	2773.3	2881.40 16/4	2458.20 1/9	3.57	21.3
	All Mining	608.9	603.0	613.3	713.10 23/4	489.80 31/8		
Reserve Bank's move to trim official interest rates and and stronger than expected GDP data sent market higher.								
Austria	Credit Aktien	(a)	371.08	(a)	384.34 29/5	346.44 8/10	1.98	12.9
	ATX Index	1114.66	1093.48	1132.37	1628.66 29/5	982.66 1/10		
Further gains in cartonboard maker Mayr-Melnhof and Bank of Austria kept the market in positive territory.								
Belgium	BEL20	3222.35	3201.81	3276.26	3632.67 20/7	2357.76 10/1	1.74	20.6
Utility holding company Tractebel stole limelight with 5.3 per cent surge, almost cancelling Tuesday's 6 per cent fall.								
Brazil	Bovespa	8405.0	8543.0	8631.0	12289.08 15/4	4791.89 10/9	na	na
Market 2.2 per cent lower at midsession as investors extended wave of profit-taking.								
Canada	TSE 100	394.53	398.83	391.36	475.63 25/5	324.91 5/10	1.72	18.3
	Metals Minls	3206.09	3214.81	3168.50†	4360.01 10/3	2500.18 31/8		
	TSE300Comp	6366.80	6457.14	6343.87†	7832.36 22/4	5335.76 5/10		
	Portfolio§§	3319.80	3363.52	3284.47	3985.61 25/5	2719.24 5/10		
Shares lower at midsession, in line with Dow, on concern that earnings would not live up to expectations.								
Chile	IGPA Geni	3894.33	3927.45	3961.90	4861.95 17/3	2880.95 14/9	3.19	12.9
China	Shanghai B	29.95	30.24	30.37	58.88 10/2	26.25 12/8	1.47	28
	Shenzhen B	57.74	58.56	58.44	98.87 10/2	49.86 13/8		
Concerns over full-year corporate profits combined with selling by retail investors put pressure on hard currency B stock								
Colombia	IBB	(a)	1046.49	1025.62	1431.46 7/1	778.17 14/10	na	na
Czech Republic	PX 50	378.5	381.4	399.5	617.30 23/3	316.80 8/10	na	na
Blue chips ended mixed after promising signs early in day of recovery.								
Denmark	CopenhagenSE	594.33	596.60	608.86	778.84 7/4	566.95 9/10	1.71	16.9
Blue chips edged higher in low turnover and analysts said overnight Dow performance would set tone for today.								
Egypt	Cairo SE Gen	369.38	368.71	368.09	393.19 21/4	346.46 2/2	na	na
Milling sector turned back after recent advance, attributed to unconfirmed reports of extra government subsidies.								
Finland	Hex General	4859.16	4792.40	4898.96	6503.43 21/7	3228.43 12/1	2.12	18.1
Strength in Nokia single handedly held market up in positive territory.								
France	SBF 250	2339.58	2360.96	2444.69	2769.73 17/7	1923.16 12/1	2.34	19.5
	CAC 40	3849.91	3888.34	3843.38	4388.48 17/7	2862.54 12/1		
Session again dominated by oil giant Total, where turnover remained heavy at FFr2.3bn and stock remained out of favour.								
Germany	FAZ Aktien	1524.29	1543.30	1624.06	1946.69 20/7	1259.88 2/10	1.38	19.2
	Commerzbank	4664.10	4501.00	4750.40	5712.80 20/7	3689.30 2/10		
	DAX‡	4691.69	4781.73	5022.70	6171.43 20/7	3896.08 8/10		
BMW dropped DM63 to DM1,142 while DaimlerChrysler lost DM4.55 to DM148.10.								
Greece	Athens General	2500.04	2470.69	2511.82	2825.52 21/7	1399.13 29/1	1.74	19.6
	FTSE/ASE 20	1555.85	1539.94	1559.86	1722.13 21/7	788.18 29/1		
Shares rebounded after Tuesday's privatisation gloom as foreign buyers sought blue chips.								
Hong Kong	Hang Seng	10055.78	9975.85	10402.32	11810.69 25/3	6660.42 13/8	3.36	14.3
	HSCC Red Chip	938.22	931.14	965.37	1776.69 27/2	578.87 1/9		
Market rebounded after hefty losses of previous two sessions but investors remained cautious, awaiting fresh incentives.								
Hungary	Bux	5584.97	5569.44	5976.32	9016.26 23/4	3775.82 21/9	na	na
Index only fizzled out as profit-takers moved in.								
India	BSE Sens.	2815.59	2804.03	2810.86	4280.96 21/4	2764.16 20/10		
	Crisil 500	564.12	560.75	561.90	845.82 21/4	557.66 20/10	na	na
Domestic funds were active, although overall turnover was low.								
Indonesia	Jakarta Comp.	386.96	387.73	366.27	554.18 2/2	256.83 21/9	2.55	25.8
Investors shrugged off pro-democracy protests and embassy safety alerts, sending shares 2.4 per cent higher.								
Ireland	ISEQ Overall	4635.73	4575.76	4726.82	5471.81 21/4	3748.11 8/10	2.05	17.7
Israel	Tel Aviv 100	291.96	289.75	296.45	337.43 9/6	249.19 8/10	na	na
Session was quiet, with early losses overturned near the end as a strengthening of the shekel increased confidence.								
Italy	BCI Comit 30	313.88	315.45	329.41	368.80 20/7	249.81 9/10	1.73	25.5
	Banca Com Ital	1353.40	1358.14	1436.79	1654.36 7/4	1083.50 9/10		
	Mibtel General	21413.0	21503.0	22374.0	26377.00 6/4	16761.00 9/10		
Investor sentiment was depressed by falls in New York and Frankfurt. Aerospace company Finmeccanica gained 3.2 per cent.								
Japan	Nikkei 225	14586.62	14835.41	14883.70	17264.34 2/3	12879.97 9/10	0.92	47.7
	Nikkei 300	228.78	227.89	228.12	257.43 10/2	192.39 9/10		
	Topix	1147.15	1142.26	1143.50	1300.39 10/2	980.11 15/10		
	2nd Section	1200.36	1199.91	1213.45	1491.27 12/2	1036.64 13/10		
Volumes were muted. Technology stocks rose on the back of Wall Street's overnight rise and hopes for restructuring.								
Jordan	Amman SE	184.94	184.66	185.16	184.52 17/8	159.46 18/11	na	na
Turnover rebound at 350,000 dinars with little trade even in Jordan Cement, which had bolstered activity this week.								
Malaysia	KLSE Comp.	528.75	518.75	501.47	745.36 27/2	262.70 1/9	2.89	11.7
Shares ended up, but off highs, although analysts said bullish sentiment remained intact.								
Mexico	IPC	3761.71	3749.38	3769.89	5204.09 2/1	2858.18 10/9	1.65	15.6
Bargain hunters were offset by selling in the face of the weakness of the Dow Jones Industrial Average.								
Morocco	CASA	806.65	807.16	813.28	883.96 1/9	668.57 21/1	na	na
Netherlands	CBS TtlRtnGen	1154.8	1188.5	1243.8	1493.80 20/7	874.90 8/10	2.15	21.8
	CBS All Shr	654.3	667.6	698.7	845.60 27/7	548.10 8/10		
Financials were weak and there was selling of Royal Dutch shares. ING lost Fl3.20 to close at Fl 98.70.								
New Zealand	Cap. 40	1931.50	1950.01	1991.34	2350.02 20/3	1698.24 2/10	5.58	19.1
Market ignored rate cut in Australia and subsequent rally in domestic debt markets to end lower.								
Nigeria	SE All-Share	(a)	5879.94	5888.19	6604.87 11/2	2236.40 12/1	na	na
Weakness in Nigerian Breweries after recent strong run, sent broad market lower.								
Norway	Oslo SE Indi	1603.53	1619.02	1674.90	2370.88 4/5	1358.78 8/10	2.34	12
Continuing weakness in oil prices and lower Dow sent market lower.								
Pakistan	KSE-100	1072.07	1061.46	1050.97	1746.31 2/1	785.73 14/7	na	na
Bullish mood encouraged by start of prime minister Nawaz Sharif's two day visit to US								
Peru	Lima Gen	1557.12	1557.43	1581.59	1803.91 4/5	1159.50 21/9	na	na
Philippines	Manila Comp	1896.00	1921.79	(c)	2311.42 25/3	1082.18 11/9	1.37	14.4
Poland	Wig	11548.0	11532.0	11777.7	18582.70 11/3	10473.70 9/10	2.28	8.1
Shares edged up, calling halt to three day slide which took prices down 7.4 per cent.								
Portugal	BVL 30	4630.46	(c)	4750.95	6176.89 22/4	3999.88 2/10	2.08	26.8
	PSI 20	10826.12	(c)	10894.61	14292.99 22/4	8114.51 2/10		
Electricidade de Portugal weak after Salomon Smith Barney cut 12 month price target after reports of steep tariff cuts.								
Russia	RTS	69.07	67.73	71.46	411.81 5/1	38.53 5/10	na	na
Comments by IMF chief Michel Camdessus that fund could support Moscow if policies were right had little impact.								
Singapore	SES All-S'pore	379.99	377.39	391.31	437.98 19/3	253.20 4/9	2.31	28.1
	Straits Times	1383.59	1368.70	1416.55	1600.76 19/3	805.04 4/9		
Selective fund demand for blue chips and talk of further interest rate cuts sent market higher.								
Slovakia	Sax	(a)	85.40	82.64	182.48 5/1	81.45 20/11	na	na
No shares changed hands on bourse's listed floors. Index boosted by gains in issue of aluminium maker ZSNP.								
South Africa	JSE All Share	5391.5	5387.7	5520.9	8359.70 20/4	4904.40 11/9		
	JSE Gds	945.0	977.3	1042.5	1310.90 8/10	672.80 18/3		
	JSE Indl.	6074.3	6038.8	6293.0	9942.70 20/4	5248.90 11/9	4.79	8.6
Market flat with investors unimpressed by rate cuts by country's four major banks.								
South Korea	KoreaCmpEx	446.35	445.96	451.88	574.35 2/3	280.00 16/6	1.3	19.3
Foreign demand helped market up but gains capped by unsettled arbitrage contracts and rights issues due this month.								
Spain	Madrid SE	813.14	820.48	844.95	947.82 17/7	642.29 5/10	1.87	24.2
Early optimism dashed by falls in Germany and US, with heavyweight Telefonica proving one of biggest losers.								
Sri Lanka	CSE All Share	570.42	574.52	575.25	789.70 4/5	481.08 3/9	na	na
Declines in plantations sector in wake of lacklustre debut of Kelanivalley Plantations put cap on activity.								
Sweden	AffarsvrldsGen	3250.8	3272.6	3361.8	3895.80 20/7	2411.70 8/10	2.14	20.7
Shares failed to maintain early gains although Astra put in strong performance on rekindling of merger stories.								
Switzerland	SMI Index	6747.8	6784.3	7083.1	8412.00 21/7	5126.50 5/10	1.37	23.1
	SPI General	4273.66	4292.75	4462.95	5237.39 20/7	3311.28 5/10	na	na
Early gains erased by crumbling dollar. Insurance sector, hard hit on Tuesday, bounced back.								
Taiwan	WeightedPr.**	7157.22	7102.37	7177.22	9277.09 2/3	6251.38 3/9	1.42	21.5
Market rebounded after three sessions of declines as demand re-emerged for plastics, textiles and electronics stocks.								
Thailand	Bangkok SET	343.12	358.16	362.82	558.92 3/2	207.31 4/9	2.74	71
Concerns over speed and breadth of economic and financial reform sent shares lower for fifth straight session.								
Turkey	IMKB Nat 100	2598.40	2504.76	2577.54	4630.99 16/7	1852.28 8/10	4.1	11
Market sharply higher on expectations that president would give leftist leader Bulent Ecevit mandate to form government.								
Venezuela	IBC	4097.21	3955.06	3949.59	7656.92 23/3	2684.76 10/9	na	na
Zimbabwe	ZSE Industrial	5859.11	5850.85	5983.72	8795.71 31/3	5441.85 1/9	na	na
WORLD	FOS&P World(S)	(a)	291.77	293.06	305.82 17/7	242.36 5/10	na	na
	MS Capital IntS	(a)	(a)	1108.3*	1143.80 20/7	888.50 12/1	na	na
CROSS-BORDER	DJ Stoxx 50	3037.19	3071.78	3203.08	3670.82 20/7	2433.07 8/10		
	DJ Euro Stx 50	3017.89	3056.11	3179.08	3658.48 17/7	2419.23 8/10		
	FTSE E300	1096.61	1106.30	1149.93	1327.68 20/7	893.55 5/10		
	FTSE E100	2534.58	2563.63	2665.75	3066.91 20/7	2048.91 8/10	na	na
	HSBC Drgn	(a)	218.92	225.84	273.91 26/3	181.71 5/10	na	na
	ING Bngs Emrg	(a)	115.71	118.82	169.66 22/4	98.64 11/9	na	na

** Sat Nov 28: Taiwan Weighted Price 7177.22; Korea Comp Ex 455.66. Montreal. ◆ Toronto. (c) Closed. (a) Unavailable. ‡ XETRA-DAX after-hours index Dec 2: 4712.20 −84.98. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ◆ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). Subject to official recalculation. Yields and P/E ratios are based on Datastream Total Market indices. Midsession.

THE NASDAQ-AMEX MARKET GROUP

4 pm close December 2

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]							

AMEX

4 pm close December 2

Stock	Div.	P/E	Vol 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

The EASDAQ All Share Index (EASI) for 2nd December 761.39 down 0.47% Day's high: 766.32 Day's low: 757.44
EASDAQ is a fully-regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members

Company	Mid price	Change on day	Volume	High	Low
4Front Technologies	USD9.75	+1.125	0	11.5	5.25
ActivCard	USD12.92		4100	6.375	2.25
Algol	ITL23500		300	44250	13250
Artwork Systems	USD16.875		21578	21.125	5.875
Autonomy Corp.	USD3.75		2000	4.1875	2.5625
Chemunex	FRF7.1	+0.1	143000	22.5	5.5
City Bird Holding	USD7.0625		198	10.3125	6.1875
Dialog Holdings	GBP1.54	−0.13	5750	7.1	0.6
EDAP TMS	USD1.875		0	9.125	1.5
ESAT Telecom	USD3.25	−0.25	145500	10.375	4.75
Esprit Telecom		−1.8125	0	43.75	14.5
Europe Prod. Int.			500	121.25	69.3
Esprit Telecom	USD27.25	+1.375	4760	46.625	4.875
Evs International	ATS283	−1	340	690	267
FLV Fund	USD14.375		3850	22.25	11.875
Global Graphics	FRF251	+0.5	2507	255.5	178
Global Telesystems	USD41.625	−0.125	0	62.375	21.25
Grupo Telecom	USD10.875	+0.25	43500	27.75	10.5
Gruppo Formula	ITL24400	+100	28875	65500	14250

Company	Mid price	Change on day	Volume	High	Low
ICOS Vision Sys	USD13.75		6500	20.875	11.625
Innogenetics	USD9	+0.25	24521	14	9.875
Integr. Surg. Sys.	DEM5.9	+0.2	0	12.2	4.5
Lernout & Hauspie	USD30.375	−1	66681	65.25	13.125
Moleas	USD11.875	+0.1875	16025	20.0625	7.375
Memory Corporation	USD12.1	+1.75	5400	12.25	8.9
Mercer Int	USD6.375	+0.125	1000	12.875	5.75
NTL	USD55.375	+0.5	0	63.75	30.5
Optica Int'l	USD31.25	−0.125	14805	67.63	10.88
Orthovita, Inc	USD7.5		1300	11.625	7.25
Panid Racing Sys.	ATS450	−10	378	5150	2965
Photonig	NLG19.5	−0.5	57643	33.5	15.75
Pulsecure	USD2.23	+0.16	20220	7.625	2.125
Royal Olympic	USD4.125	−0.125	0	18.5	2.875
SAT Sys Integral	ATS483	+13	255	4155	465
Schoeller-Bleckmann	ATS750	−13	100	1755	750
SoDa Ax	DEM60.23	+0.98	250	80.75	50.25
Topcall Intl	ATS350	−76	1897	5698	622
Turbodyne Technol	USD4.8	+0.12	14670	16.63	2.1

Prices for 2/12/98. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at http://www.easdaq.be EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9890). Annual/Interim reports can be obtained for companies with a ◆ marked by this item, Annual Reports Club telephone +44 181 770 0770. For further details please see Share Price pages.

STOCK MARKETS

US pulls bourses lower after Boeing stalls

WORLD OVERVIEW

World markets continued to track Wall Street on a day dominated by Boeing's announcement of a profits warning and further job cuts, *writes Michael Peel.*

The aircraft maker's statement provided further support for strategists who think analysts' inflated earnings forecasts have led to an overvaluation of US stocks.

The Dow Jones Industrial Average fell in early trading, sending European bourses lower in the absence of other big corporate news.

The most significant deal announced in Europe yesterday was Deutsche Bank's DM1bn purchase of the Belgian business of Crédit Lyonnais, the French bank.

Asia edged forward after Tuesday's modest rise in New York, although the fortunes of individual markets were mixed. Tokyo, Hong Kong and Singapore all gained about 1 per cent, but Manila fell on profit-taking and Bangkok suffered its fifth consecutive decline.

The news from Boeing came the day after the release of downbeat purchasing managers' surveys from the US, UK, Germany, Italy, Denmark and Sweden. They all suggested manufacturing activity was declining.

That view is consistent with the official line of Dresdner Kleinwort Benson's strategy and economics team. "There is now increasing over-capacity in the [US] manufacturing sector," said Ian Harwood, global head of strategy and economics. "The same is likely to be true of the service sector. This is the main reason US domestic pricing power continues to evaporate."

Post-tax profits in the US had fallen by 6 per cent year-on-year in the third quarter of 1998. "We think this will run through in 1999. This profits recession is pretty much unappreciated."

Nomura, too, forecasts a fall in US stock prices, which rose almost 20 per cent between October 2 and December 1. In its latest monthly research it says companies will be forced to curtail investment and expansion plans as earnings are hit by slower growth and cheap imports.

Nomura predicts the flight from equities will intensify as small-time investors reduce their spending on shares. The increase in market volatility in the summer has probably caused these stockholders to lose confidence that the gains they made will prove permanent.

There are still commentators who take a less bearish view. Goldman Sachs' monthly publication on world investment strategy predicts earnings growth next year, adding that profits should hold up better in the US and continental Europe than in Japan and the rest of Asia.

Dow tumbles on corporate profit fears

AMERICAS

Fears over corporate profits unnerved Wall Street, sending the Dow Jones Industrial Average back below 9,000 in morning trading, *writes Daniel Bögler in New York.*

The Dow dropped 148.29 to 8,985.25, while the broader Standard & Poor's 500 index fell almost as heavily, losing 14.24 to 1,161.04.

The market was dragged down by another profits warning from Boeing, which plunged more than 16 per cent to $33⅞. The aircraft maker blamed the Asian crisis for production cuts which will reduce its projected 1999 earnings from $2bn to $1.8bn-$1.5bn.

Retail stocks were battered by bad news from Sears Roebuck, the department store chain, which shook confidence in the outlook for the Christmas shopping season by delivering a profit warning for the fourth quarter.

Sears said its domestic revenues fell by 4.5 per cent last month, a period that included the start of the holiday shopping season. Its shares were down $2⅛, or 5 per cent, at $42¼ in early afternoon trading.

Among other retailers, the big department store groups were hardest hit.

J.C. Penney was down $¾ at $32⅛, Federated Department Stores $1⅛ at $40⅛, and May Department Stores $1⅛ at $57⅞.

Oil stocks had a quieter day after yesterday's falls, with Exxon slipping just $⅛ to $71⅞ while its takeover target Mobil managed a $1 gain to $84¾. However, Chevron, which had been seen as a potential merger partner for Mobil, fell more heavily, by $2⅛ or nearly 3 per cent to $79⅞.

Meanwhile, J.P. Morgan, the investment bank which is expected to gain substantial fees from advising on all the big oil deals announced recently, gained another $⅛ to $108⅞, building on the previous session's big rise.

Technology stocks were also weaker, with the Nasdaq composite down 24.17 at 1,979.58. While International Business Machines, Microsoft and Intel all fell, Hewlett-Packard stood out with a 2 per cent rise to $63⅛ after the computer maker announced an aggressive push into financial services clients.

TORONTO fell back in early trading, weighed down by another weak start on Wall Street that sparked profit-taking across the heavyweight banking sector.

Royal Bank of Canada came off C$1.45 at C$76.55 and Canadian Imperial Bank of Commerce C$1.10 at C$34.20. Bank of Nova Scotia retreated 55 cents to C$34.65.

As a result, the benchmark 300 composite index was off 58.74 at 6,398.40 at noon, although volumes were moderate at best.

Golds were dull with Barrick shedding 20 cents at C$30.30. Among industrials, Northern Telecom fell C$1.50 to C$71.30 and Seagram 35 cents to C$53.30. Canadian Pacific lost 45 cents at C$33.45.

Firm features were thin on the ground. Gulf Canada hardened 5 cents to C$4.60 and Alcan Aluminium stayed positive, improving 15 cents to C$41.80.

São Paulo slips again on loan deal concerns

SAO PAULO continued to lose ground, adding further losses to the 6 per cent decline racked up by the Bovespa index over the past two sessions.

The benchmark was off 180 or 2.1 per cent at 8,365 by midsession with brokers citing the weak start on Wall Street and nervousness about the IMF loan package.

A finance ministry official said he was confident the $41bn aid deal announced last month would be ratified. But as one broker said: "There have been last-minute hitches before."

MEXICO CITY was little changed in early trading, with the IPC index improving 7.49 to 3,756.87.

Bank stocks found favour in active trading amid talk that a solution was imminent to the scandal-driven difficulties confronting the sector. Bancomer, for example, rose 16 centavos to 2.07 pesos and Banamex gained 86 centavos to 13.04 pesos.

Total's fall dominates Paris

EUROPE

Early losses were pared in **PARIS**, but the market still ended lower for the third day running. The session was again dominated by oil giant Total, where turnover remained heavy at FFr2.3bn.

By the close the CAC-40 index was comfortably above its 3,628.42 low for the session at 3,649.91, a decline of 1.04 per cent or 38.43 on the day, or 7.5 per cent since Friday's close.

Total stayed out of favour as analysts drew comparisons between the 37 per cent premium it is paying for PetroFina and the 15 per cent or so put up by BP and Exxon for Amoco and Mobil.

The stock ended off FFr28 at FFr5.90, a two-day fall of 16.8 per cent. Broad sentiment was not helped by Morgan Stanley Dean Witter, which cut its target price for the shares by 7 per cent.

The FTSE Eurotop 300 index fell 9.69 or 0.88 per cent to 1,096.61. See Euro Prices page.

The downbeat mood also spread to PetroFina in Brussels where profit-taking after Tuesday's 18.4 per cent surge left the stock off BFr225 at BFr16,650.

Firm features in Paris included BNP, up FFr10.80 at FFr425, and STMicroelectronics, which bounced FFr23 to FFr382 after sliding almost 10 per cent on Tuesday. Carrefour added FFr11 at FFr4,036 in spite of a downgrade from "buy" to "hold" at HSBC.

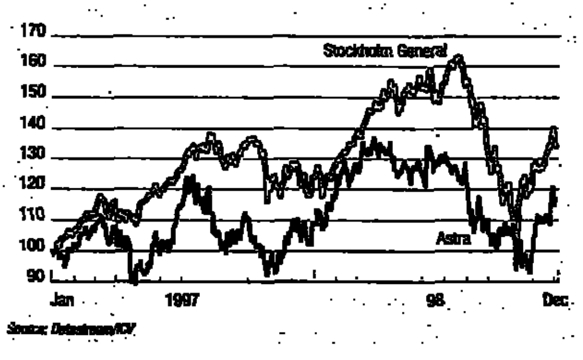
TV group TF1, hit delays to a broadcasting law to curb public television advertising and leave a clear field for the private channels, shed FFr45 at FFr963.

Sanofi and Synthelabo, the subject of strong merger rumours in recent sessions, fell back. Sanofi lost FFr70 at FFr930 and Synthelabo came off FFr31 at FFr1,199.

FRANKFURT headed further into negative territory after Tuesday's 5 per cent tumble. The Xetra Dax index registered a loss of 64.98 at 4,712.20.

BMW was the car sector's big loser as news that the Rover Group chairman, Walter Hasselkus, had resigned overshadowed a landmark deal to axe 2,500 jobs and introduce flexible working to save the British Longbridge plant from closure.

Astra
A share price and index (rebased)



Source: Datastream/ICV

BMW dropped DM63 to DM1,142, while DaimlerChrysler lost DM4.55 to DM148.10.

Deutsche Bank picked up to a high of DM102.75 on news that it was to buy Crédit Lyonnais Belgium before selling pressure again took hold. The shares closed DM4.15 lower at DM95.55.

Dresdner Bank lost DM2.68 to DM68.30, hurt by a Merrill Lynch downgrade that said the bank was too hasty in seeking acquisitions and mergers. The stock jumped last week on a rumour that it would co-operate with investment bank CS First Boston.

Siemens was marked down DM2.95 to DM112.55 ahead of today's annual news conference at which the company is expected to provide a 1998 earnings per share figure little changed on 1997.

AMSTERDAM fell 21.05 to 1,027.68 on the AEX index after further weakness for financials and persistent selling at Royal Dutch.

ING, downgraded by local broker Oyens as a result of disappointing banking returns, lost Fl 3.20 at Fl 98.70 and ABN Amro retreated Fl 1.40 to Fl 35.10 in 11.6m shares traded.

Royal Dutch gave up Fl 2.50 at Fl 86.20 with weak international oil prices offsetting hopes for further consolidation.

Wolters Kluwer slipped Fl 19.90 or 5.6 per cent to Fl 335.10 after Salomon Smith Barney initiated coverage of the media group with a price target of Fl 320.

ZURICH was hurt by the crumbling dollar and Wall Street's weak opening and the SMI index, which reached an early high of 6,932.4, turned back to close 37.3 lower on the day at 6,7747.0.

Some financials, notably the insurers, recovered after Tuesday's losses. Zurich Allied rose SFr11 to SFr938 and Baloise gained SFr34 to SFr1,234.

MADRID gave up 7.34 at 813.14 on the general index. Banks were a shade easier and Endesa lost 2 per cent as the power leader's attempts to acquire Ebersis of Chile appeared to hit problems. Endesa fell Pta75 to Pta2,000.

Sausage skin maker Viscofan improved Pta100 to Pta4,345 after a local broker upgraded the shares to buy.

STOCKHOLM was enlivened by renewed rumours of a merger involving drugs group Astra.

The shares shot up to a peak of SKr152, but settled back to close SKr3 higher on the day at SKr148, as the cancellation of a planned meeting with analysts set the stories running.

The company refused to comment on the merger rumours, or a suggestion that the group's chief executive Hakan Mogren was about to resign.

Last week, Astra also declined to comment on rumours that either Germany's Schering or Schering-Plough of the US were eyeing the company.

The general index lost 25.28 to 3,167.83.

WARSAW called a halt to a three-day 7.4 per cent slide and the Wig index closed virtually flat, 23.1 higher at 11,548.0.

Among the day's active issues, Cement maker Gorazdze shot up 14.90 zlotys to 59 zlotys after its majority shareholder, Belgium's CBR, made a bid for the shares it did not already own.

ZEW, the electrode maker, put on 4.20 zlotys to 46.20 zlotys on news that SGL Carbon of Germany was considering taking a majority stake.

Written and edited by Michael Morgan, Jeffrey Brown, Michael Peel and Peter Hall.

Bank rate cuts fail to cheer

SOUTH AFRICA

Johannesburg ended little changed on a day of mixed trading, during which a round of interest rate cuts by the leading banks failed to cheer the market.

The all share index eased 3.9 to 5,391.6. Financials dipped 0.4 per cent to 8,263.4 and golds gave up 3.2 per cent at 946. Industrials stayed positive, adding 0.6 per cent at 6,074.3.

Among the day's more active stocks, Sasol rose R2 to R24.

Nikkei halts its losing streak

ASIA PACIFIC

The benchmark **TOKYO** index rose for the first time in four days of trading, but volumes were muted and the market lacked direction, *writes Paul Abrahams.*

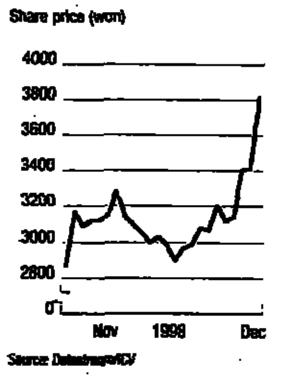
The Nikkei 225 rose 151.21 or 1.02 per cent to 14,986.62 after trading between 15,011 and 14,781. The recovery was broadly based, with the more representative weighted Nikkei 300 index up 0.4 per cent or 0.89 at 228.78, and the Topix index of all first-section shares up 4.89 or 0.4 per cent at 1,147.

Volume was just 311m shares, but the momentum was reasonably strong, with 743 shares up, 418 down and 135 unchanged.

Technology stocks rose on the back of Wall Street's overnight rise and hopes for restructuring. Toshiba was the second most traded stock, up Y20 at Y700. Hitachi rose Y20 to Y750 despite reported problems with a recently upgraded system at the Tokyo stock exchange, and Fujitsu was up Y23 at Y1,436.

Shares in Fuji Heavy Industry were hit by news that the group's chairman had been arrested in connection with a bribery scandal. The stock fell Y7 to Y597 in heavy trading.

Daewoo Electronics
Share price (won)



Source: Datastream/ICV

Takefuji, the consumer credit group, started trading on the first section of the exchange and jumped from its over-the-counter price of Y8,540 to Y9,450.

NTT, whose management is marketing the fourth tranche of the group's privatisation, fell Y21,000 to Y910,000. Despite heavy selling by retail investors, NTT DoCoMo, its recently floated mobile telecoms subsidiary, continued its rise, up Y10,000 to Y4.86m.

SEOUL ended little changed, but the day produced a number of sharp price movements.

Among techs, Samsung Electronics gained Won1,500 at Won64,000 and Daewoo Electronics, driven by talk of restructuring, shot ahead by Won405 or 11.9 per cent to Won3,815. The Kospi index ended up 0.39 at 446.35.

BANGKOK moved lower for a fifth day with the SET index off 13.04 at 343.12 on investor worries that political enthusiasm for economic reform is starting to fade.

Banks fell steeply. Bangkok Bank lost Bt3.50 to Bt47 and Thai Farmers Bt2.75 to Bt48.25. The sector index shed 7.3 per cent.

SYDNEY celebrated a central bank cut in interest rates by rising 26.9 to 2,761.0 on the All Ordinaries index. A number of leading shares rose to fresh peaks and the retail sector came in for renewed buying. Lend Lease gained 85 cents to A$19.90 and Brambles 59 cents to A$39.79.

JAKARTA rose sharply despite continued civil unrest, although dealers said the government had supported the market by buying blue-chip state stocks. The composite index jumped 9.23 or 2.4 per cent to 396.96.

Two partially privatised companies rose on interest from domestic and overseas investors. Telekomunikasi Indonesia, the telephone utility, surged Rp125 or 4.6 per cent to Rp2,825, while Indonesia Satellite, the operator of international calls, put on Rp450 or 4.2 per cent to close at Rp11,200. The companies together account for 22 per cent of the market's capitalisation.

Brokers said investors had been encouraged by the steadiness of the rupiah and further indications that interest rates would fall.

MANILA fell for the second session running as investors continued to take profits. The composite index closed 35.79 or 1.9 per cent lower at 1,886.0, adding to Tuesday's 2.7 per cent fall. The exchange had climbed 20.7 per cent in the previous 13 days' trading.

Losers included Philippine Long Distance Telephone, Ayala Land, the property developer, Manila Electric, the power distributor, and Metropolitan Bank and Trust.

EMERGING MARKET FOCUS

Chill penetrates Africa's shelter

Nearly 18 months after the global decline in emerging markets began, a chill wind has finally started blowing through sub-Sahara Africa.

Although South Africa, by far the continent's largest market, followed the trend in other emerging markets, much of the region was shielded from the worst of the downturn and continued to attract buyers for a substantial part of this year.

According to Standard Bank in London, the stock exchange index in Ghana more than doubled in US dollar terms in March. Several US buyers made their debuts on the market following a visit by President Bill Clinton that month.

Derek Hammond at broker T. Hoare & Co said: "The market has been reflecting the fact that the government has managed to get to grips with the economy."

Botswana was another strong performer, up 31.1 per cent at its peak, while Mauritius showed an annual gain of 18.8 per cent in August.

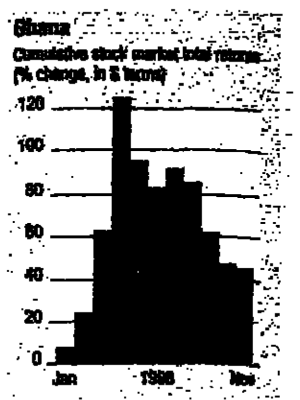
Buyers were also attracted to the new regional market serving the former French colonies in West Africa, which opened in the Ivory Coast capital, Abidjan, in September.

On the downside, political and economic uncertainty overhung Kenya and Nigeria, while Zimbabwe, one of the best performing emerging markets in 1996, saw another decline this year.

Failure to privatise Zambia Consolidated Copper Mines knocked confidence in that country's market, while local currency depreciation in Malawi hit dollar returns from its bourse.

Christopher Hartland-Peel at Standard Bank believes "high profitability, low debt levels, good management at the listed companies and, with one or two exceptions, a generally strong banking sector" explain the relative strength of the region for much of the year.

Ghana
Cumulative stock market total returns (% change, in $ terms)



Source: Standard Bank; End month figures

Sentiment changed in the second half and the last quarter saw increased selling. By the end of November, Ghana's gains had been cut to 45.8 per cent while Botswana's slowed to 19.4 per cent.

Profit-taking has been partly blamed for the retreat, but there has also been a worsening of sentiment in emerging markets.

Jenni Chamberlin at HSBC also points out that the strong advances seen in several markets in the first half boosted the weightings of some index funds beyond their intended ceilings for the region. Dealers said this had prompted a sell-off.

In spite of that decline, the region remains ahead of the sector. Figures up to the end of November from Standard Bank show sub-Saharan equity markets, excluding South Africa, have declined 13.9 per cent since the beginning of the year. The Morgan Stanley Capital International emerging markets index fell 24 per cent in the same period, and the IFC emerging markets global index declined 21.4 per cent.

Jenni Chamberlin at HSBC said: "I remain positive on the region, but great care has to be taken with stock selection."

Joel Kibazo

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TURKISH FINANCE AND INDUSTRY

THURSDAY DECEMBER 3 1998

Annual review

Anniversary year could prove to be a turning point

Turkey has so far escaped the worst of the emerging markets turmoil. But despite earning the praise of the IMF for its skill in 'adapting to changed circumstances', it is not out of danger yet. In 1999, growth and the pace of reform both look set to slow. Reports by **Leyla Boulton**

Seventy-five years after the establishment of the Turkish Republic, the country *can point* to a chequered record in achieving the goals set out by its founder *Mustafa* Kemal Ataturk.

The soldier-turned-statesman sought to lift the country from its role as the "Sick Man of Europe" to equal partner of the leading western powers.

Three-quarters of a century later, Turkey has the second-largest army in Nato after the US and an impressive private sector economy operated by a well-educated middle class and a skilled labour force.

Ranked 17th in the world in terms of gross national product, Turkey is, however, also the only big market economy to still suffer from double-digit inflation in spite of which it has defied all odds by growing at 6 per cent a year. While it was one of the first developing countries to liberalise trade in *the 1980s, it was one of the* last in seriously beginning to privatise its large state-controlled sector little over a year ago.

An overblown bureaucracy and state control of the economy have fed corruption and organised crime. "The state is corrupted because everybody needs it to be," explains one unusually candid Turkish banker.

Before it fell last week, the coalition government of Mesut Yilmaz, the centre-*right prime minister*, made rare progress not only by reducing inflation but also in tackling overdue structural reforms. A new tax law which it steered through parliament is expected to significantly increase government revenues. It privatised *dozens of state-owned* enterprises before the programme ground to a halt under the weight of the emerging markets crisis and corruption scandals at home.

The government also con*cluded an agreement* with the International Monetary Fund designed *to monitor its* economic progress and improve a credit rating which until three months ago was lower than Russia's.

In 1999, however, both growth and the pace of reform look set to *slow: Elec*tions scheduled for April 18 *are likely to follow a period* of rudderless government following the loss of office by Mr Yilmaz, accused by his political opponents of improperly intervening in a bank sell-off involving an alleged mafia godfather. The outcome of the elections, in which the *Islamist Fazilet* (Virtue) party could win the largest share of the votes, is even more uncertain.

"There is a danger that 1999 will become a lost year for Turkey," warns Percy *Barnevik*, the chairman of Sweden's Investor group who takes a keen interest in this nation of 60m. "Inflation is an obstacle to Turkey's full membership of the European Union and the level of foreign direct investment that Turkey deserves. If *Argentina and Brazil were* able to bring inflation down to single digits, I'm sure Turkey can do it too."

Most political parties, including Fazilet, say they want lower inflation and more privatisation.

Partly thanks to its *reduced exposure to foreign* capital, but also to its policy of not pegging its currency to the dollar, Turkey has escaped the worst of the emerging markets turmoil so far. But despite earning the *praise of the IMF for its skill* in "adapting to changed cir*cumstances*", *Turkey is not* out of danger yet, prompting the IMF to call for "further vigilance".

Prospects for further vigorous reform to help fend off further external shocks remain unclear, however, because of the political *uncertainty*.

As Gazi Erçel, governor of the Turkish central bank, *put it recently*: "An *even* stronger commitment to sound macroeconomic poli*cies together with structural* reforms and more active use of monetary policy would increase the economy's ability to weather adverse external developments. It would *also force the international* market place to become more serious about differentiating between us among the other [emerging markets]."

Yet Mr Erçel already sees some "green lights" for Turkey in the international *market place. Last month,* Turkey was one of three emerging markets – together with Brazil and Argentina – to successfully tap international capital markets with a DM600m eurobond issue. It also stands a good chance of receiving a *share* of the international funds earmarked by the IMF to *help deserving emerging* markets stave off contagion from less healthy economies.

Turkey wants external financing of this kind to help it convert more of its expensive domestic debt into cheaper foreign loans.

An improvement in *Turkey's relationship* with the EU, the country's biggest trading partner, has been another qualified success in the international arena. This will speed progress in deepening a customs union *that will eventually absorb* Turkey into a single free *trade zone with the EU*.

The EU is expected to free long-delayed aid funds designed to ease the necessary adjustments for Turkey. Earlier this year, it softened a controversial decision ranking Turkey's membership application beneath that of less developed eastern European economies such as Bulgaria.

But the bitter dispute which erupted last month over Italy's failure to extradite Abdullah Ocalan, leader of the Kurdish PKK guerrilla group, to Turkey, shows just how fragile Ankara's relations with the EU remain.

Turkey's defensiveness in foreign policy is also a symptom of a wider malaise in its political system, which is too weak for a more long-term approach to either domestic problems or tensions with the outside world.

Ishak Alaton, veteran chairman of Alarko Holding, a construction and heating conglomerate, says the time is ripe for politicians to adopt a more humble attitude to the world.

"During the early years of Ataturk's republic, there was a need to give the nation confidence by launching slogans such as *One Turk is Worth the* World. If you try to sell that mentality in the year 2000, when one Norwegian is worth 15 Turks in GDP terms, you get nothing but laughter".

Yet this anniversary year may also prove a *turning-point for Turkey*.

Many Turks hope that recent scandals over corruption and mafia involvement in privatisation – based on new evidence of links between business, government, and organised crime – may prove a catalyst *for an Italian-style cleansing* operation and perhaps even political reform. Husnu Ozyegin, the founder and chairman of Finansbank, a relatively young middle-tier bank, says the way in which "these things are discussed in the media and prompting resignations of ministers shows that democracy is working in this country".

A more discriminating approach by investors to emerging markets in an integrated world economy also turns up the pressure on Turkish politicians to remove handicaps for companies at home as they increasingly venture on to *world markets*.

Many believe the country's salvation lies in the coming to power of a younger, better-educated generation which is already taking over the running of the private sector from older more traditional managers.

"*This transformation is* already well under way in business and will happen in politics and the rest of society," says one western banker . "Turkey is a young democracy. Like a teenager making all the mistakes you would expect him to make, it's wild and energetic but still immature."

THE ECONOMY

Markets crisis underlined vulnerability

Turkey's main economic problems remain high inflation and unsound public finances

The emerging markets crisis has represented something of a moment of truth for Turkey.

Although Turkey is one of the oldest and most advanced emerging markets, the international turmoil tarred it with the same brush as market economies which were far less developed. When the crisis hit neighbouring Russia, the Istanbul stock exchange lost 55 per cent of its value between August and September. Treasury bill rates which had fallen to 75 per cent in July jumped to 140 per cent – translating into a real interest rate of 50 per cent.

Before that, Turkey was being overtaken in the race to join the European Union by more recent east European applicants. It even had a lower credit rating than Russia until Moscow defaulted on its debts as Turkey continued to meet its obligations without a hitch .

In the past month, investors have begun to retreat from generalised panic over emerging markets and are taking a more discriminating approach towards the stronger economies. But the crisis underlined just how vulnerable Turkey remains to external shocks until it fixes domestic handicaps which keep its cost of borrowing high and obscure its attractions for potential investors.

The handicaps include high inflation, a lack of long-term finance for companies, which are crowded out of domestic capital markets by government borrowing, and slow progress in tackling structural problems ranging from privatisation to a social security system the country cannot afford. Inflation in turn has contributed to social tensions by making most Turks poorer. A weak political system means that politicians are often driven by short-term considerations, a trend the government of Mesut Yilmaz sought to buck.

It reduced consumer price inflation from 93.2 per cent in October 1997 to 76.6 per cent two months ago. Wholesale inflation was down from 87.5 per cent to 62 per cent over the same period. Turkey achieved a primary budget surplus of 4.6 per cent this year from zero the year before.

Charles Blitzer, director of emerging markets research at Donaldson, Lufkin & Jenrette, says: "Turkey has been one of the hardest emerging markets to understand largely because of its high inflation and also because of political noise which together have painted it as unstable politically and macroeconomically.

"Yet the political turmoil in Turkey is more apparent than real and changes in government have not led to substantial changes in economic policy. Very strong growth has been fuelled by the private sector."

Turkey's main asset is a dynamic private sector economy which is increasingly able to compete on world markets. David Edgerly, head of the Istanbul office of Alliance Capital, a US fund manager, believes that Turkish entrepreneurs are in an ideal position to benefit from the international turmoil because "they are masters at situations that change 180 degrees overnight".

Yilmaz Argüden, chairman of Erdemir-Arge, Turkey's biggest steel producer which is also a candidate for privatisation, notes that the country "is not a typical emerging market" in that it is much less leveraged and therefore more resilient to external shocks. Its ratio of private sector borrowing to total borrowing is 1.5 per cent, compared to 33 per cent for Malaysia. The current account deficit remains manageable at $3.5bn, or at around 1.5 per cent of gross domestic product. Even after $8bn in hot money left Turkey in the wake of Russia's financial meltdown, central bank reserves stabilised at about $22bn. Skilled management of the exchange rate – Turkish exports have remained competitive because the lira has not been pegged to the dollar – also helps to explain why Turkey managed until recently to grow at 6 per cent a year in spite of its high inflation, even though economists are quick to point out that the country could have grown even faster if inflation had been lower.

Most Turkish politicians agree that bringing down inflation must be a national priority

Ajay Chhibber, the World Bank director in Ankara, argues in a paper* published next week that "Turkey could have easily moved towards the explosive growth rates seen in countries like Korea if inflation had been brought below 30 per cent and Turkey's public finances had been used to generate growth rather than repay expensive domestic debt."

Turkey's main economic problems remain high inflation and unsound public finances. Most Turkish politicians agree that bringing down inflation must be a national priority although few are prepared to stomach tough measures to achieve this. A national consensus favours a policy of gradual disinflation adopted by the government. In the meantime, the expected slowdown in the economy in 1999 has prompted the government to revise its 1999 growth target to three per cent from 4.5 per cent. Its inflation goal for next year has been raised to 35 per cent from 20 per cent.

Although the government also achieved a primary budget surplus of 4.6 per cent this year up from none at all the previous year, the consolidated budget deficit remains above 7 per cent of GDP because of interest payments.

An immediate challenge facing Turkey is to try to convert more of its expensive domestic debt to cheaper foreign loans. Mr Chhibber notes a "huge anomaly" in the overall debt picture: the government pays the equivalent of 12-13 per cent of gross national product servicing a domestic debt which represents 25 per cent of GNP. It pays the equivalent of just 2 to 3 per cent of GNP in servicing a foreign public debt which is equal to 35 per cent of GNP.

Turkey's successful return to international capital markets last month gives the authorities some hope that they will be able to borrow more money from abroad in future.

Observers and Turkish officials also hope for a resumption of funds from privatisation next year after an ambitious programme ground to a halt earlier this year under the twin impact of the emerging markets crisis and allegations the government acted improperly in the $600m sell-off of Turk Ticaret bank.

Muharrem Kayhan, the head of Tusiad, Turkey's business confederation, is not alone in identifying reform of the state pension system as the single most important remaining structural challenge.

He describes as "economic suicide" a retirement age set at 38 for women and 42 for men. He reckons that raising the eligible age for a state pension to 55 for women and 60 for men would save Turkey $60bn over the next 12 years. Currently the system makes a $5bn a year contribution to the budget deficit.

Istanbul street vendor: inflation has contributed to social tensions by making most Turks poorer AP

He complained however that politicians are reluctant to take on the problem because of "an inexplicable fear that this will cost votes although somebody is going to make $60bn and those funds will be used in Turkey".

Given the country's potential and problems, it is not hard to understand why most observers say they are optimistic about Turkey's prospects in the long-term and pessimistic in the short term.

"Turkey is virgin territory," says Mr Edgerly of Alliance Capital. "Nobody has been here before. It's very hard to find a good deal in say Spain or Portugal. Sooner or later you will find a rash of transactions here."

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BANKING

Overcrowded sector ripe for restructuring

Changes long overdue could be precipitated by disinflation and the squeeze on foreign lending to banks in emerging markets

There are many distortions in Turkey's overcrowded banking sector.

Interest rates are around 140 per cent although inflation is just 80 per cent.

The eight largest of a total of 75 banks account for 60 per cent of the industry's assets, while an unidentified 12 or so banks representing about 5 per cent of the sector are under central bank supervision.

As the country's biggest borrower, the government is crowding out finance for the real economy while perpetuating the ill-health of state-owned banks which provide subsidised loans to everything from agriculture to small business.

Much needed privatisation of state-owned institutions has started at last but allegations in recent weeks of mafia involvement in a couple of bank sales has put further sell-offs on hold.

Following the successful inroads made by the government of Mesut Yilmaz, prime minister, into inflation – which had previously shown signs of being stuck at around 100 per cent – some banking experts believe a restructuring of the sector is long overdue.

Such change could be precipitated by a combination of disinflation and the recent squeeze on foreign lending to banks in emerging markets.

John McCarthy, head of ING Barings in Istanbul, believes Brazil's victory in the early 1990s over double-digit inflation offers an illustration of what Turkey could achieve if its anti-inflation campaign continues.

"There were many middle-sized banks in Brazil that could no longer make it in a deflationary environment because they were in the business to buy government paper," he says.

"They weren't performing the intermediation role a bank normally performs, so when deflation hit we saw liquidations and bankruptcies." Restructuring of the banking sector would be part of a virtuous circle because a lowering of inflation would also imply a reduction in government borrowing, freeing funds for the real economy.

"The government is competing with the private sector for finance," complains Kenan Koç, general manager of Edip, a yarn manufacturer with annual turnover of DM50m.

"If the government is paying 130 to 140 per cent a year, you cannot finance yourself at lower rates.

"This problem has existed for three or four years but before [the emerging markets crisis] there was money coming from [banks in] Europe so it could be directed to the real sector. Now even that has stopped."

Erhan Ersöz left a secure banking career as head of treasury at an Istanbul investment bank last summer to set up a consultancy specifically geared to advise on mergers and rationalisation in the industry.

But opinion varies as to how long Mr Ersöz may have to wait for his business to take off. He expects 80 per cent of banks to see "radical changes in their shareholder structures" in the next two years.

Other bankers remain sceptical that change will occur quickly or at all. "If we were living in another country, logically I would say there will be consolidation," says Hüsnü Ozyegin, chairman and founder of Finansbank, a middle-tier bank.

"But Turkey is the only country where a banking licence is worth 60 to 100 million dollars, so things may work out differently here. There are a lot of small but very healthy banks ... Yet the fact that 20 banks have gone into retail business in the past two years is a threat for the whole industry including the big banks."

Gazi Erçel, Turkey's smooth-talking central bank governor, argues that restructuring will be so gradual as to be undramatic.

"The disinflation process should be gradual so the banking system and the real sector will have a chance to adapt over the years."

He adds, however: "If you look at banks' balance sheets, the maturities of their assets and liabilities are very short so they can adapt very quickly."

The International Monetary Fund, which has just begun monitoring the Turkish economy on a regular basis, sounded alarm bells on two fronts in a first report in October.

It warned against the "distorting" effects on the banking system of large state-owned banks such as Ziraat and Halk, which provide artificially cheap loans to agriculture and small business.

It also cautioned against Turkish banks' over-reliance on risky foreign exchange operations. In anticipation of change, whether slow or fast, some of the more far-sighted institutions have already begun cutting their costs and trying to develop market niches outside the more obvious feeding troughs for Turkish banking. The reason for this, says Isak Antika, managing director of Chase Manhattan Bank in Turkey, the country's biggest foreign-owned bank, is that "banks will have to find a better reason for existing than simple trading room operations".

Hüsnü Akhan, president and chief executive of Korfezbank, another middle-tier institution, says it has been moving to build up its loan portfolio at the expense of the lucrative but more short-term business of lending to the government.

The ratio of profits from lending to total profits is already up to 29 per cent from 18 per cent a year ago.

"We are doing it on the understanding that once we do it much of our resources will be allocated to customer business and we are giving up some of the profits that would come from investing in T-bills," says Mr Akhan.

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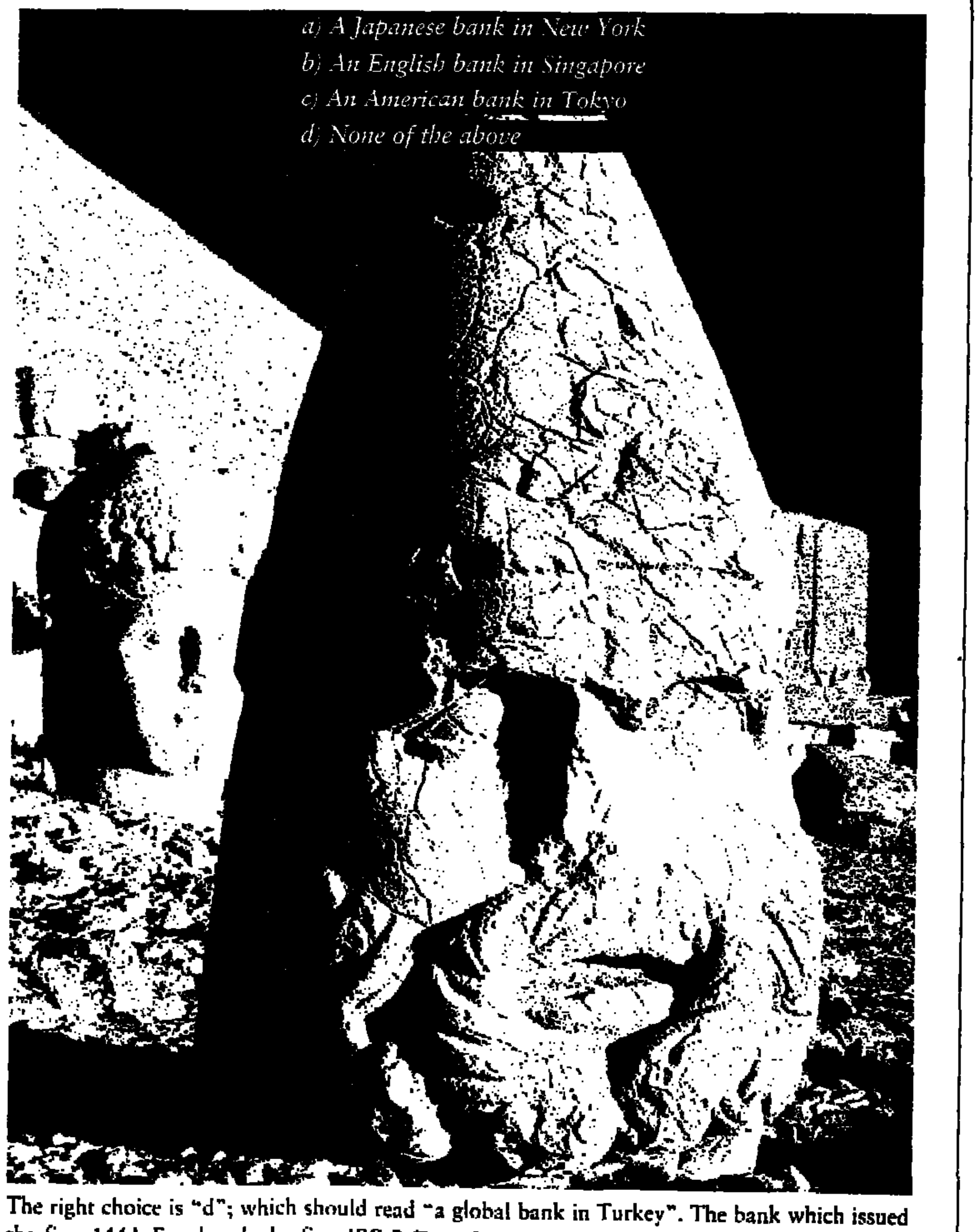

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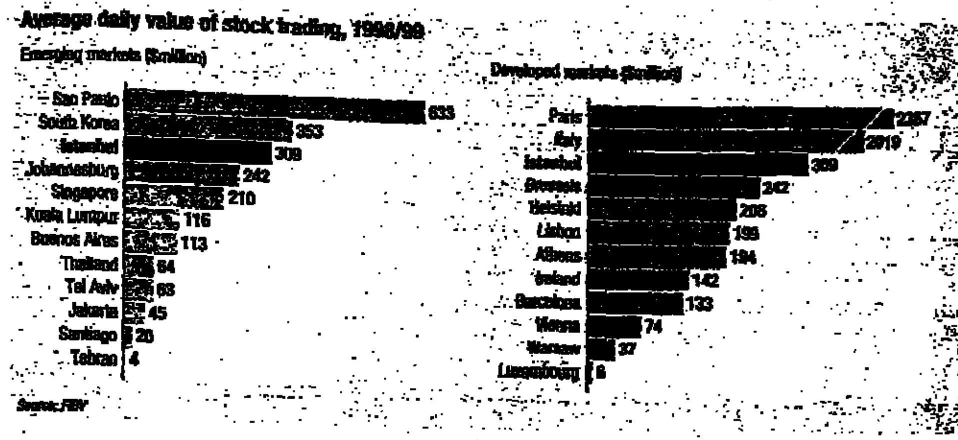

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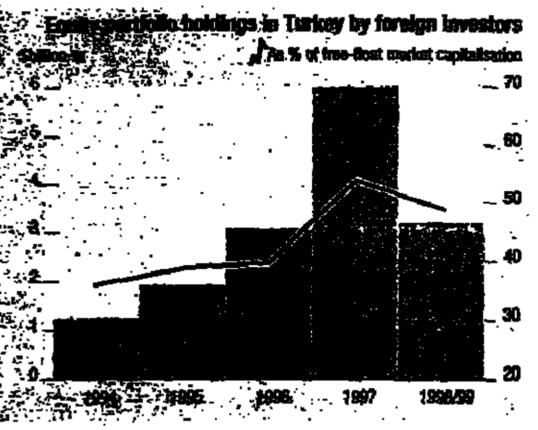

THE STOCK EXCHANGE

Still reaching for the stars

An ambitious privatisation programme has been stalled by the economic crisis and domestic scandals

The starry dome which greets visitors to Turkey's lavish new stock exchange in Istanbul suggests that the sky is the limit for this 12-year-old market's ambitions.

Before the emerging markets crisis broke earlier this year, the Turkish stock market in 1997 rewarded investors with the world's second highest rate of return after Russia.

But, while losing 55 per cent of its value from August to September under the impact of Russia's subsequent economic meltdown, the Istanbul stock exchange maintained a high level of liquidity.

Exchange officials and market participants are keen to emphasise that net sales and purchases by foreign investors amounted to just $500m of total holdings now worth $3bn, down from $6bn before the crisis.

Although he believes the market was overdue for a correction with price-earnings ratios of 23 at its peak, Hüseyin Erkan, executive vice-chairman at the exchange, says: "The suddenness of the drop can be explained by psychological rather than macro-economic factors."

The exchange is so confident of the efficiency of its settlements system that it is proposing to trade securities from less-developed markets in eastern Europe, central Asia and the Middle East in a so-called "international securities free zone".

But, despite its fast growth since its birth in 1986 to daily trading, the market remains small compared with its potential.

With inflation hovering at double-digit levels that have gone out of fashion in most other parts of the world, shares held by Turkish investors account for only $3bn of total savings of $160bn. The rest of the nation's savings are kept in bank accounts or under mattresses in the form of gold, jewellery and foreign currency. And these proportions are unlikely to change, says Mr Erkan, until the inflation rate comes down and draft measures to protect the rights of small investors are put in place.

"Imagine 100 per cent interest rates and yields of 3-4 per cent," he says. "Why would you come to the stock exchange? Nobody's going to wait for 25 years in this country [to realise long-term gains]."

Mehmet Sami, vice-president at Ata Invest, a Turkish brokerage, says: "The only bad thing you can say about the market is that there is insider trading [even though] it is relatively well handled and there are laws and regulations to stop it happening." This, together with high inflation, is what helps to make the market more volatile as Turkish investors seek to cash in on short-term price movements.

The market's 15 per cent plunge in response to the publication of corruption allegations against Mesut Yilmaz, the outgoing prime minister, was a classic illustration of that volatility. But the news that drives the market is sometimes less transparent.

Mesut Yilmaz: corruption allegations hit market AP

"The quality of the companies is good and so is analyst coverage," says one western trader who specialises in Turkish equities. "But Turkey does not trade on fundamentals, but on news.

"You need access to Turks who give you the right kind of news, otherwise you get taken unawares."

Mr Erkan reports that Turkish shareholders trade 10 times as often as foreign investors even though they own the same amount of stock. Meanwhile, only 121 of the country's 500 biggest companies are traded on the exchange, with medium-sized groups accounting for the remaining 157 stocks listed.

For many Turkish companies the advantages of being privately held, such as lesser transparency, outweigh the benefits of going public and raising money more cheaply than borrowing at interest rates now at 130-140 per cent.

An ambitious privatisation programme, in which one flotation alone – Turk Telekom – could double the market's volume, has been stalled by the combination of international economic crisis and domestic corruption scandals.

Yet the signs are that change, albeit slow, will continue on all fronts. In the past 16 months the coalition government of Mr Yilmaz has lowered wholesale price inflation down to 60 per cent from 90 per cent.

A further gradual reduction in inflation and more privatisation remain the acclaimed goals of most parties competing for power in general elections due early next year.

Investor protection legislation has also been submitted to parliament by the government and, although it may not be passed before the elections, it too is likely to reappear on the parliamentary agenda next year.

Amendments to capital markets law would set up an investor protection fund to guarantee investors' savings if brokerages were to collapse as 12 of them did in Turkey's home-grown financial crisis of 1994.

It would also provide for the immediate liquidation of brokerages' financial assets in the event of bankruptcy in order to avoid the long-drawn court proceedings of the sort that have so far failed to recompense investors hurt by 1994 brokerage failures.

Mr Erkan sees the lack of a repeat this year of any of the dramatic events of 1994 as a sign of how much stronger the regulatory system has become in just a few years.

On the corporate front, more and more Turkish companies are coming round to the view that the advantages of going public outweigh the disadvantages, particularly as a younger generation of professional managers takes over the running of old-style family-run businesses.

ENERGY

Archaic legal system delays sell-offs

Demand has grown nearly four times as fast as in the EU and privatisation is seen as the way to satisfy it

As Europe's fastest growing energy market, Turkey can be compared to a glass that is half empty in the short term and half full in the long term.

On paper it is a most attractive place for market participants. Apart from straddling crucial energy supply routes between Europe, the Middle East and the former Commonwealth of Independent States, Turkey itself has a large domestic power market with unfulfilled needs.

Primary energy demand has grown 37 per cent in 10 years, nearly four times as fast as in the European Union.

Turkish energy planners say that over the next decade the country will need to invest $4.5bn a year to build an annual average of 3500MW in extra capacity to meet the requirements of a population which could grow to 80m people by 2010 from the present 63m.

Demand for gas is projected to increase fivefold between now and 2005 with electricity consumption tripling over the same period.

"The huge dimension of these investments makes it more difficult to lay the burden entirely on public sources," Metin Başli, deputy head of Turkey's general directorate for energy affairs, told a seminar in London last September.

"That is why privatisation [is] a rational solution for the electricity sector."

Loud Turkish lobbying for a new pipeline to carry Azeri oil to western markets by way of Turkey's Mediterranean port of Ceyhan has tended to overshadow inexorable, if somewhat erratic, moves to deregulate and privatise the domestic energy sector.

Earmarked for privatisation are dozens of power plants and Tupras, the state-owned company which controls four of the country's five refineries.

Yet foreign investors and executives at home are frustrated by obstacles to faster change while households around Turkey continue to suffer from occasional power shortages.

An archaic legal system which can only be reformed by amending the constitution poses the main threat to progress.

Of 10 deals, worth a total value of $1.2bn, to transfer the running of power plants to private sector companies for 20 years, seven are still awaiting approval by the Danistay, or administrative court.

The transfer of operating rights will inject into 10 lignite coal-fired plants $380m in new investment with the aim of lowering electricity prices and increasing output by a third through improved technology and management.

The World Bank has urged Turkey to focus harder on developing a new regulatory system to ensure that public monopolies are not simply turned into private monopolies and to provide fair and independent enforcement of the terms of contracts.

Ajay Chhibber, the World Bank's director in Turkey, argues that the climate of legal uncertainty "holds people back and reduces the quality of the investor that is coming into the process".

Yurdakul Yigitgüden, under-secretary at the energy ministry, notes in response that the ministry is putting together a draft law for the creation of an independent regulatory board responsible for the whole electricity market from power generation to its distribution.

"The World Bank is also aware of how fast progress is in Turkey," he says. "If you can go fast forward, nobody will tell you you have to stop and wait for the legal framework to be ready."

The legal framework is also blamed for holding back investment in exploring for reserves in the Black Sea and preventing Botas, the gas monopoly, from giving up some of its monopoly to involve external partners and attract badly needed finance to meet the growing demand for gas.

The biggest privatisation attempted in Turkey and the fourth-largest in the world, the $1.1bn sell-off of a 51 per cent stake in Petrol Ofisi, the nation's largest petrol retailer, is at risk of unravelling as Turkish courts question its validity and the bank which was part of the winning consortium is seeking to retrieve a $60m down payment on the transaction.

Ismail Alakoç, Petrol Ofisi's chairman, is not alone in describing the botched privatisation as "very sad".

But he, like other industry executives, remains convinced it is just a matter of time before "the energy and oil industry are privatised and liberalised and are no longer dependent on what type of government we have".

However, today it is the politicians, operating in a system of weak government which does not encourage an appetite for radical reform, who dictate just how fast that goal can be achieved.

Ugur Bayar, head of the privatisation administration, says it is a shame that an ambitious privatisation programme has become ground down by a political scandal over alleged corruption in a bank sell-off.

"Everything we complain about [in Turkey] stems from the public sector," he says. "This has nothing to do with the right or the left or Islamic fundamentalism or anything like that.

"You just need brains to understand how obsolete, heavy, and lumpy state-owned enterprises are."

CONSUMER GOODS

No quick bucks but good long-term prospects

Changes are slowly but surely modernising the business landscape


Big profit potential: Karum shopping mall and business centre in central Ankara AP

On the face of it, Turkey should be a goldmine for sellers of consumer goods.

With a fast-growing population of 60m, it is also a relatively unsaturated market. It buys only 20 per cent of Mexico's shampoo consumption a head and uses 20 per cent less detergent than Poland, a nation half its size.

Turkey's location, straddling Europe and the Middle East, is another plus, together with a very strong entrepreneurial culture and a customs union with the European Union that will eventually make Turkey part of a single European free trade zone.

The list of challenges to overcome in tapping the market – ranging from double-digit inflation which makes bank borrowing prohibitively expensive for many companies, to over-regulation by government – is equally impressive.

It helps to explain why foreign direct investment in Turkey since 1990 has stagnated at $1bn a year rather than achieving the $5bn level that western investors such as Percy Barnevik, the chairman of Investor group, see as more commensurate with the country's potential.

"One has to take a long-term view because coming to Turkey to make a quick buck won't work," says Werner Geissler, general manager of the Turkish subsidiary of Procter & Gamble, the detergents, snacks and personal care products group.

Some companies, such as pharmaceuticals groups which are still awaiting long-promised price deregulation, have lost money in Turkey. Others, including foreign groups which have teamed up with the powerful home-grown Koç and Sabanci conglomerates, have made fortunes selling hungry Turkish consumers everything from cars to washing machines.

A senior executive at a leading Turkish retail group puts the market's pluses and minuses this way: "The attraction is that, because it's an imperfect market, the profit potential is bigger than it would be in Germany or the UK. With half the management talent you can make twice as much money.

"The problem (for foreign investors) is that every time there is a fundamentalist demonstration in Istanbul, and it is on CNN, your boss will call up and ask what you are doing there."

Yet, against a backdrop of chronic political instability and high inflation, big changes are slowly but surely modernising Turkey's business landscape. Nowhere is this clearer than in the increasingly competitive consumer goods industries.

One of the changes is globalisation. This in turn is spurring a gradual transition within Turkish companies from an older, family-dominated, style of management to a younger, more professional generation of managers. As competition encroaches on sectors that have traditionally enjoyed government protection, such as cars, even mighty groups such as Koç, whose late founder Vehbi Koç started off by selling tiles to the young Turkish republic for a new parliament building, are being forced to change in order to survive.

Although the group "did fairly well" in automotive and white goods, Aydin Müderrisoglu, vice-president for strategic planning at Koç Holding, says: "It is a changing global market out there and the Koç group has to change too."

In a country where diversified conglomerates are not going out of fashion, this means not only doing some things better but expanding into new growth areas which Koç has identified as energy and telecommunications.

The recent liquidity crisis in emerging markets could accelerate the drive towards rationalisation and increased efficiency. It is already being viewed as an opportunity by many entrepreneurs, bringing to the fore the qualities of resilience and flexibility for which Turkish entrepreneurs are often praised.

For example, textiles, the country's biggest industry, is likely to suffer most from overcapacity in a contracting market.

But, while being forced to lower its prices under pressure from increased Chinese competition, Aril, a sportswear manufacturer which exports most of its annual sales of $10m to western Europe, says it has also been buying up stitching ateliers from less fortunate competitors that were selling to Russia until the emerging markets crisis.

As competitors in the Far East suffer, Metin Çaglar, chief executive of Vestel, a fast-growing computer and white goods company which aims to become one of the world's top three electronics groups, plans to buy up troubled companies to help achieve his ambitious growth targets.

But, while Turkish groups increasingly turn their sights abroad, foreign investors at a meeting of the World Economic Forum in Istanbul urged Turkey to dismantle remaining obstacles to the growth of its domestic market.

Faruk Yöneyman, chief executive of the Turkish arm of Roche, identified a dismantling of health ministry price controls on medicine as essential to the survival of the industry in Turkey.

Mr Geissler, of Procter & Gamble, which operates in an area free of price regulation, took the unusual step for a foreign businessman of urging the government to correct worsening income distribution.

"A more just distribution of wealth generated by increased gross national product is clearly the task of government so more consumers can afford to buy our goods," he said.

Hiromasa Kubota, executive vice-president of Toyota, the largest Japanese investor in Turkey which manufactures cars in a joint venture with the Sabanci group, added import controls to a wish-list that included a lowering of inflation and of value added tax.

ISLAMIC BUSINESS

Emerging picture in different shades of green

Companies, like the politicians, have discovered that going Islamic can be good for business

The rise of Islam in Turkish politics has been mirrored by a surge of religion in business.

As well as experiencing, albeit briefly, its first Islamist-led government, Turkey in the 1990s saw a proliferation of "interest-free" banks following Islamic principles as well as the rapid growth of Müsiad, an Islamic businessman's association with 3,000 members.

But, if green is the colour of Islam, there are several shades of greenery to Turkey's Islamist business landscape. Some businessmen claim to act out of genuine belief. Others say they are filling gaps in the financial services market.

Mehmet Savaş, chairman of Ihlas Finans, a finance house which does not pay or receive interest but shares profits – and losses – with its customers, puts himself squarely in the hard-headed category. "Things by their very nature, including banks, cannot have any religion," he says. "My chair is a chair and religion is just a feeling that the owners of a company may have."

He asserts that the reason Ihlas does not use interest, proscribed by Islam, has nothing to with its owners' feelings but because they spotted unsatisfied demand for interest-free banking.

To emphasise the point, he says that Ihlas Holding, which controls his bank, also owns shares in a commercial bank, operates two insurance companies and plans to set up an investment bank, all of which are involved in receiving or charging interest.

And even those businessmen who like to wear religion on their sleeve – such as Mehmet Emin Polat, chairman of Konya Sanayi Holding, a provincial distributor of car parts – are focused above all on making money.

At a recent Müsiad reception sponsored by his company, Mr Polat explained that western-educated businessmen based in Istanbul tended to be more selfish than religious Anatolian provincials such as himself.

But his main purpose in sponsoring the event, at a plush western hotel in Istanbul, was to propagate not Islam but the virtues of his company. And bankers who work with Islamic institutions say that the dividing line between interest and Islamic-style charges is often not clear.


Polat: religion on sleeve


Mehmet Savaş: 'Chair is a chair'

Turkish businessmen, like the politicians, have discovered that going Islamic can be good for business. Ihlas Finans, with paid-up capital of ten trillion lira, says it is now the biggest interest-free financial institution in Turkey. It finances leasing, instalment sales and joint ventures and provides venture capital. Mr Savaş says it caters for two types of customer – those who like its rates of return and religious people who do not want to make money out of interest and who, according to an Ihlas survey, represent 15 per cent of its clients.

"Both of these market segments were uncovered," he says. "When Ihlas Finans started in 1995, there were four interest-free banks in Turkey but in spite of their existence there was still something to be got from the market."

With interest-free banks' deposits accounting for $2bn out of total Turkish bank deposits of $60bn, he believes the interest-free market niche is now filled.

But Turkey's enduring double-digit inflation, which has hovered close to 100 per cent in recent years, is another reason to make interest-free finance an attractive proposition for borrowers. Some 60-70 per cent of Ihlas' loans are to small and medium-sized companies, mostly, as it happens, companies involved in trading with western Europe.

The economic logic of Konya Sanayi Holding is also in large part derived from the concept that small is beautiful. It helps small companies which manufacture spare motor parts to sell their products on western markets by acting as their collective representative in western Europe.

Müsiad has also provided executives from smaller businesses with a less intimidating alternative to Tusiad, the mainstream business confederation which has tended to be dominated by big company bosses – including Enver Oren, founder of Ihlas Holding.

Different shades of green also mean differing views on politics in Turkey. Mr Savaş says the Ihlas holding group has been criticised for declining to make contributions to Fazilet (Virtue), the main Islamist party.

Müsiad also shuns Fazilet but for the completely different reason that it is not Islamic enough. "Islam means purity, fairness and justice and Fazilet has little to do with Islam," says Mr Polat.

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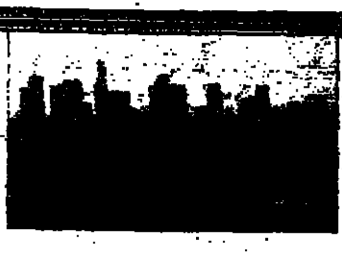
FT AUTO

THURSDAY DECEMBER 3 1998

Quarterly review



The clean goal
Industry and governments aim to beat the smog
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Samba sadness
Economic turmoil runs through South America
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Lightweight targets
Use of aluminium in cars increasing
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Fresh focus for clean challenge

The motor industry is displaying a rare example of courage in challenging its critics over the worldwide debate on environmental pollution, write **John Griffiths** and **Haig Simonian**

The painstakingly-reasserted international commitment to cutting carbon dioxide emissions made at the latest United Nations conference on climate change in Buenos Aires *has refocused* the motor industry's attention on the environmental challenges of building cleaner cars.

However, many carmakers still appear undecided and insecure in their strategies towards communicating the difficulties and costs of cutting exhaust emissions still further. And many remain wary of trumpeting *what has already* been achieved in reducing levels *of both regulated* substances, such as carbon monoxide, nitrogen oxides and the particulates found in diesels, and the newer need to curb carbon dioxide levels.

In Europe, that task will reach a new threshold by the end of this year. By then, the European Automobile Manufacturers' Association (ACEA) hopes to have finalised its voluntary agreement with the European *Commission on* stringent cuts in carbon dioxide levels by early next century. Approved by EU environment ministers on October 6, the deal is now undergoing some final fine-tuning as negotiators from ACEA and the European Commission meet in *Brussels to resolve* outstanding issues, such as how the agreement is to be monitored.

Pilloried by single-issue environmentalists as a pollution and congestion-causing villain, targeted by legislators demanding the spending of billions to clean up its products' act, the motor industry only rarely plucks up courage to retort that the *wheels of modern economies* are turned largely by goods-bearing trucks, and that car drivers are not a health-threatening sub-species but the population at large.

Garel Rhys, professor of motor industry economics at Cardiff Business School, argues that even the most ardent environmentalist tends to criticise from the standpoint of his or her own convenience in terms of personal mobility – from the *basic idea that everyone's* journey must be unnecessary, except for your own.

In the past few months, however, the motor industry has won one rare – but landmark and financially important – victory in the battle *for the minds, if* not the hearts, of the legislators. It *is one with the potential to* save automakers billions of dollars in development costs over the next five to 10 years.

The victory has been achieved partly at the expense of the petroleum industry, traditionally a far more adroit lobbyist than the automotive sector in the *EU's corridors of power but* now facing costly legislative *demands of its own as Brus*sels pursues the aim of cleaner cars and trucks for the 21st century.

In June the European Commission, environment ministers and the European parliament finally reached a compromise on the next stages of reducing the level of "regulated substances" emitted by cars. Progress since the very first EU directive on *curbing exhaust pol*lution, in 1970, has already *been extensive. As Ian McAl*lister, chairman of Ford of Britain, points out: "Fifty new Ford Kas produce the *same level of emissions as* one original 1976 Fiesta."

But considerably *tougher* further restrictions on maximum emissions of carbon monoxide, oxides of nitrogen (the main culprit in photochemical smog), and particulates (suspected carcinogens emitted mainly by diesels) will be introduced in two stages, in 2000 and 2005. To meet them, and to undertake additional measures associated with global warming, *will cost the motor industry* $60bn, carmakers told Brus*sels during the course of sev*eral years' haggling over the new rules.

The industry is still facing *that bill, but had the petro*leum industry had its way the *financial* burden on carmakers would have been much bigger. Instead, having initially convinced Brussels that the main task of reducing exhaust pollutants should fall on the carmakers themselves, the oil industry is facing its own $60bn bill to modernise Europe's refineries to produce the cleaner, low-sulphur fuels which will make the overall technologi*cal task of meeting the 2000* and 2005 targets on regu*lated substances* much easier.

Until about two years ago the oil industry appeared to *have convinced the Euro*pean Commission it would *be far too expensive* to modify refineries for what at the time was planned to be a single tightening of emissions rules by the year 2000. However, the European parliament, not satisfied that the 2000 rules went far enough, insisted on the second phase of tightening in 2005.

It was during the course of debate on how the further-reduced emissions might be *achieved that the oil indus*try's arguments finally fell *on stony Brussels ground.* In the talks, ACEA convinced *Brussels* that further substantial cuts in pollution *were technically feasible* only with cleaner fuels.

Thus, by 2005, petrol and diesel fuels will have a sulphur content of just 50 parts per million – a three-fold reduction compared with the year 2000 in the case of petrol and a seven-fold reduction for diesel.

However, ACEA's victory over the oil industry has to some extent been pyrrhic. In *July*, the carmakers' association had to reach a compro*mise with Brussels over* what for the long term is an *even more important* environmental issue – exhaust emissions of carbon dioxide, the *principal* gas involved in global warming.

Carbon dioxide is an inescapable by-product of combustion: for as long as the internal combustion engine – whether petrol or diesel – powers cars, CO_2 can only be reduced, not eliminated. Nor are cars *by any means* the sole source of the gas – power stations, heating plants or any other facilities burning fossil fuels produce CO_2 just as inexorably.

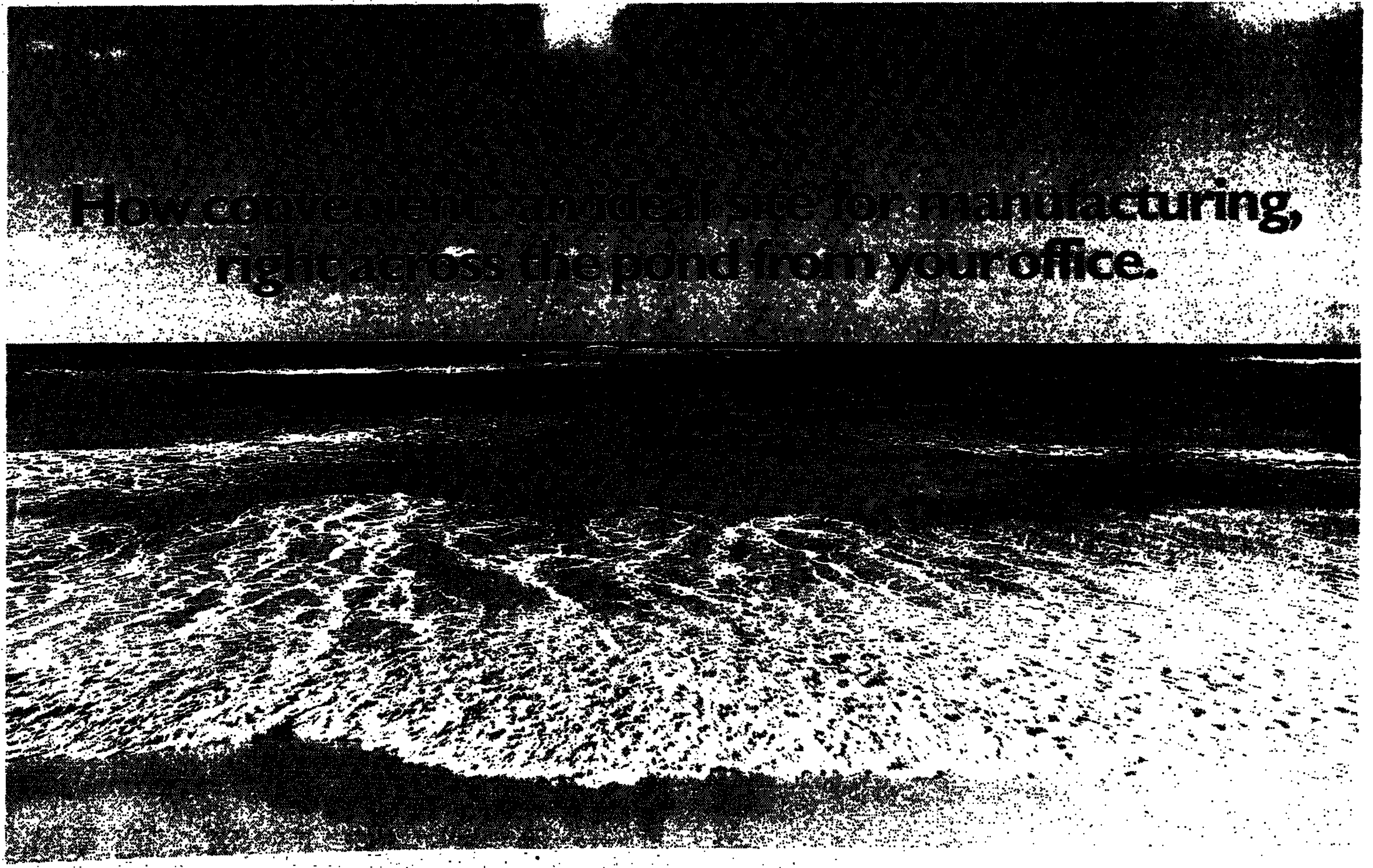
Nevertheless, last year's Kyoto environmental summit committed the EU to *cutting emissions by 8 per* cent between 1990 and 2010, and ACEA has now accepted a voluntary timetable to cut emissions of the gas from new cars by 25 per cent by 2005, compared with 1995.

As the massive research and development effort gathers pace, the *European-based* vehicle industry considers itself justified in feeling somewhat put upon and persecuted.

The new EU rules effectively mean the region's exhaust emissions will be as strict as those in once smog-plagued California by 2005. Yet whereas the European *industry has already* produced cars with average fuel economy of around seven litres per 100 kilometres, North Americans continue to pump much vaster amounts of carbon dioxide into the atmosphere from vehicles consuming nearly 11 litres per 100km.

For European carmakers, the disparity reflects what many describe as the "cow*ardice*" of the US government in not raising petro*leum taxes enough to* encourage fuel-efficiency and

Continued on Page 2



Regulations on automotive emissions are concentrating the minds of politicians, bureaucrats and industry alike. On this and following pages correspondents report on some of the problems and the ways they are being resolved

EMISSIONS by John Griffiths

There's one goal, but a string of strategies

A heavy legislative programme is the main driver for a better environment, but the industry is warning that not all its strands are being pulled in the same direction

When Volvo says that emissions from cars it plans for sale in California next year may well be cleaner than the air surrounding them, it is not being entirely fanciful.

The radiators of its California-bound S80 saloons will have a catalytic coating developed by Engelhard, the US specialist materials and precious metals group. The coating, which will add $50 to $100 to the car's cost, converts molecules of ozone – the villain in California's notorious, albeit already diminishing, smogs – to oxygen.

The faster the car travels, the more efficiently it works. Volvo claims that in the most favourable conditions, 75 per cent of ozone passing through the radiator is converted into oxygen. Add in the latest catalytic converter technology for the exhaust system, and the "cleaner-out-than-in" claim is no longer unrealistic, says Volvo.

The company plans to extend the radiator system both more widely across its range and into other markets.

The system represents one of many different approaches the motor industry is taking to reduce the environmental toll of the automobile.

These approaches include:

- A concerted drive to develop fuel cells – emitting little more than water vapour as their "exhaust";
- the more intensive use of lightweight materials to improve fuel economy of petrol or diesel engines;
- a continuing, but increasingly dispirited, search for some form of "superbattery" capable of providing the range and performance which might make electric vehicles (EVs) attractive to consumers;
- not least, much effort is going into further increasing the efficiency and economy of petrol and diesel engines, likely to be the mainstay of car production for at least the next two decades.

The pursuit of the low-polluting vehicle is being driven very little by consumers concerned for the environment. On the contrary, the big global car market success story of the past decade concerns large, heavy four-wheel-drive vehicles with poor aerodynamics and a prodigious thirst for fuel.

Thus the main driver is legislation, and as the recently-announced EU programme to clamp down on exhaust emissions in two further stages shows, the vehicle industry has little prospect of the pressures decreasing for the foreseeable future.

The package agreed under the so-called Auto Oil agreement requires a 30 to 40 per cent reduction in emissions from petrol cars and light vans and 50 per cent from diesel vehicles in its first stage, to be implemented between January 1 2000 and January 1 2002. By the end of the second stage, five years later, emissions of pollutant gases – carbon monoxide, oxides of nitrogen, benzene and ozone – are required to be 70 per cent lower.

As their contribution to cleaner vehicles, oil refiners will be required to reduce the sulphur content of fuels – sulphur is a major contributor to exhaust pollution – by around 90 per cent.

However, the legislation is more restrictive for vehicle makers than simply cutting tailpipe emissions by the use of improved catalytic converters. Manufacturers are also being required to fit on-board diagnostic systems to allow emissions to be checked accurately as the car ages.

From 2000, new models will also have to undergo durability tests after five years or 80,000 kilometres, rising to 100,000 kilometres from 2005.

Not surprisingly, the motor industry claims that the technical challenges are considerable and that the cost to the sector will be high – and inevitably reflected in the prices of new cars.

At a meeting of European environment ministers in late October, when a commitment by carmakers to reduce emissions of carbon dioxide – not a pollutant, but the major cause of global warming – was formalised, it was against the background of clear industry warnings that legislation being planned on vehicle noise and safety would work directly against government goals of reducing carbon dioxide emissions. Nevertheless, the industry is now committed to reducing average carbon dioxide emissions from new cars from 180 grammes per kilometre now to 140 grammes by 2008 and 120 by 2010.

The strides already being made by the industry are considerable. In the past few weeks, for example, the French Peugeot-Citroën group has launched the first "common rail" diesel engine for the volume vehicle market. Using technology which allows fuel to be sprayed into the engine cylinder with very high accuracy at double the pressure of conventional diesel fuel injection, the engine has 60 per cent better fuel consumption than its petrol equivalent, and 30 per cent better than even the latest-generation diesels.

Exploiting another way of gaining greater fuel economy and simultaneously reducing carbon dioxide emissions – weight-saving – Volkswagen is poised to launch the aluminium-bodied version of its Lupo small hatchback which will become the world's first commercially-available "3 litre" car – achieving fuel economy of three litres per 100 kilometres, or close to 100 miles per gallon.

Mercedes-Benz is indicating that its first environmentally-friendly fuel cell-powered car could be on the market within six years. Toyota, with its Prius hybrid – running batteries and small internal combustion engine in tandem to achieve a marked reduction in emissions – is launching the car worldwide.

The industry may be groaning under its new legislative burdens. But it shows every sign of being able to deliver.

PROFILE
JOHN DUNLAP

Golden State's clean-up crusader is moving on


John Dunlap: from smoggy roads to the heat of the kitchens

A newspaper reporter asks a centenarian the inevitable question: "How have you managed to live so long?"

"I never smoked, drank, and got plenty of exercise," comes the reply.

The sleuth counters: "But I knew someone just like that and he died at 70. How do you account for that?"

"Easy. He didn't keep at it long enough."

The anecdote is a favourite with John Dunlap, who has just retired from the chairmanship of the California Air Resources Board (Carb), after only four years in the job.

Mr Dunlap, also known as "chief of the smog police", enjoyed telling it to get across his message that there can never be any easing up in the drive for clean air.

But if the motor industry found his cornball wisdom irritating, at least Mr Dunlap's face was familiar and his approach to the job was that of a self-proclaimed "business-friendly Republican".

Now it is braced for the arrival of his successor, almost certainly a Democrat, to be appointed by the incoming state governor.

Gray Davis, the first Democrat governor in the state for 16 years, ranked the state of the environment second only in his list of priorities to education, but gave few clues to his intentions towards vehicle makers.

The only certainty is that the conflicts which characterised Mr Dunlap's tenure will not end. The state's atmospheric pollution record – it still boasts seven of the 10 smoggiest cities in the US – and projections of population growth will make sure of that.

As for Mr Dunlap's record, he may be able to congratulate himself on presiding over Carb during some of the best years in the modern history of California's air.

The number of smog-related health warnings in the south, where the problem is worst, dipped to record lows in 1997. But the unusual weather conditions rooted in the El Niño phenomenon return only once every decade or so.

For the rest of the time it is business as usual, and that means pressure on the automotive industry. Although makers of every known pollutant device, from the lawnmower to the hairspray canister to the bar of heavy-duty soap, have been obliged to change their products, vehicle manufacturers have had the most to do.

According to Carb data, "mobile sources" account for 60 per cent of smog-forming emissions. Most of the board's $100m annual budget and the energies of its 1,000 employees are, accordingly, directed at the automotive industry.

In Mr Dunlap's own words, a love-hate relationship has developed over the past 40 years. But so, too, has the catalytic convertor, introduced in 1975, followed by other clean-burn technologies including fuel injection and computer engine controls.

In the interim, parts of the Southland have seen smog levels drop almost 40 per cent as population has ballooned by 85 per cent.

A boost was provided in 1996 when Carb forced the unilateral introduction in California of clean-burn petrol, which, it is claimed, yields 15 per cent fewer emissions than conventional fuel, despite the protests of the oil refiners.

More recently, Mr Dunlap locked horns once again with the vehicle makers when his board said the most popular vehicles in the state – sports utility vehicles (SUVs), mini-vans and pick-up trucks – must in future match the same emission standards as cars.

Starting in 2004, existing car standards will be tightened even further and the less stringent rules for SUVs, which currently now emit up to 2.5 times as much NOx as cars, will be eliminated. Carb reckons the new standards will reduce the daily volume of NOx and hydrocarbons released from cars and light trucks by almost 20 per cent.

Although some experts say the standard will be easily met for smaller "trucks" such as the Ford Explorer, makers of popular heavyweights, including the Ford Expedition, would be hard-pressed and lose sales.

In a ritualistic gesture, one industry lawyer proclaimed the rules "arbitrary and illogical", opening the way for Mr Dunlap to come back with his standard response that Carb had heard such stuff before and the industry had been consistently proved wrong.

The confrontational atmosphere enveloping Carb is perhaps inevitable. Public transport remains an afterthought in most cities, the population continues to expand, and California is certain to remain unchallenged as the biggest and most competitive single market for cars in the country.

And while the quality of its urban, and increasingly its rural, air consistently fails to meet federal health standards, the stand-offs will continue regardless of the political colour of the Carb chairman and regardless of his bureaucracy's all-too-evident failings.

Mr Dunlap may prefer to remember the blessings of El Niño, but industry is more likely to recall how Carb was to concede only after years of bitter argument that the marketable zero-emission, or electric, vehicle was years off.

In the end, after setting manufacturers scrambling for solutions, rules fixing sales quotas of ZEVs for 1998 were withdrawn and reworked for introduction in 2003.

Consumers, too, will remember Mr Dunlap for the pressure on refiners to come up with clean-burn fuels which resulted in costly refinery refits for the introduction of the MTBE additive and, eventually, the discovery of a suspected carcinogen in water supplies.

The 18-month-old controversy still rages as Mr Dunlap, who once airily dismissed warnings of public health dangers, passes on to his new post as chief executive of the California Restaurant Association, a trade lobby group representing thousands of businesses.

After 15 years in the air control bureaucracy, Mr Dunlap is to have a taste of life on the other side of the fence.

He will represent an industry which has had its own share of problems with emissions from its kitchens, although he will have time to rally his forces because his Carb contract forbids him from lobbying any air quality authorities for the next 12 months.

Christopher Parkes

ALTERNATIVE FUELS by Kenneth Gooding

You can step on the gas without a drop of petrol

Carmakers are getting to grips with supplying vehicles which are driven by substances such as LPG and alcohol produced from sugar beet or cane

Malcolm Noyle believes he is the only person in the world who is employed by a manufacturer full time to sell cars using an alternative to those conventional fuels, petrol and diesel. The alternative is liquid petroleum gas.

His message is straightforward: LPG and the cars that can use it are already available in the UK. The cars cause less pollution than similar petrol or diesel models, and are cheaper to run. So, even though they cost more to buy, a user can save money over, say, 75,000 miles. The extra cost of a car with a factory-fitted LPG system is about £1,500 to a fleet buyer and £1,950 to a private buyer, he says.

There is a grant of up to 75 per cent of this extra cost available on most LPG vehicles, payable under the "Powershift" programme of the UK's Energy Savings Trust.

As manager, alternative fuel vehicles, for Vauxhall, the General Motors UK subsidiary, the cars Mr Noyle offers are Astra, Vectra and 2-litre Omega models specially re-engineered to run on LPG as well as petrol. He insists that the performance of these models is no different from those using petrol only.

He reckons to have been using LPG for 75 to 80 per cent of the 34,000 miles he has covered so far in the dual-fuel Omega he drives. It would have been nearer 100 per cent but for the need for the LPG distribution infrastructure in the UK to be developed. At present there are about 120 retail petrol stations with LPG available. The oil and gas companies have promised that by the end of next year one in 25 petrol stations will have the gas on tap.

Suppliers will also install tanks and associated equipment on car fleet operators' own premises – and not even charge for this if the demand is likely to be high enough, say a fleet of 10 cars using LPG. The cost of bulk LPG is, of course, much lower than at a petrol station.

Nevertheless, although LPG is the most advanced alternative fuel technology and the only one already available in production cars throughout UK dealer networks, the expense of providing a refueling infrastructure is a problem.

British Gas estimates it costs about £250,000 for each station, and if every one of the UK's 16,000 stations had the facilities the total cost would be £4bn. British Gas, as a compromise, will pay for and install facilities at fleet operators' premises on the understanding that private customers can use them.

Storage in the car can also be a problem. LPG takes up twice the volume of petrol or diesel. However, doughnut-shaped tanks have been developed to cut the intrusion into luggage space.

Mr Noyle suggests anyone who buys a LPG-petrol car today will probably get £300 to £500 more for it than a petrol model when it is sold in three or four years' time. "By then petrol will be about £4 a gallon and some cities will have clean air zones from which many cars will be excluded," he predicts.

The dual-fuel vehicles will also be more common by then. British Gas estimates that in five years, if the government provides the right tax incentives, there will be 200,000 LPG-petrol cars on UK roads.

However, environmentalists insist that LPG does not provide a long-term answer for the motor industry. LPG produces the same major pollutants as petrol and diesel – although much less of them – and it is not a renewable energy source.

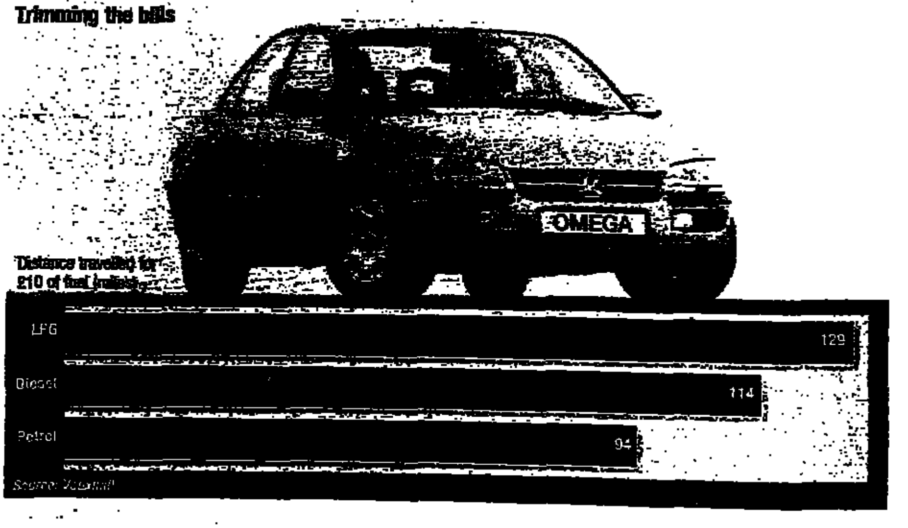
The same can be said of compressed natural gas, also being used in some dual-fuel vehicles today. CNG has the additional disadvantage of requiring sophisticated tanks and injection technology because it is stored at high pressure.

Outside the UK, alcohol is increasingly being hailed as one of the low-emission fuels of the future. Already in North America 10bn gallons of ethanol blended petrol is used every year. Brazil has also been a big user of ethanol for many years. Volkswagen says that in the past 20 years it has sold more than 2m cars in Brazil to run on ethanol blended fuel.

In the UK another form of alcohol, methanol, is used by drag racers and, like ethanol, has been used in fuel for other vehicles elsewhere in the world since the 1970s.

Both alcohols can be produced from renewable resources – ethanol from sugar beet, sugar cane or corn, and methanol from wood – but producing enough alcohol to make a real impact is both difficult and expensive. Also, cold starting with alcohol fuels is a real problem in cold climates, while methanol is poisonous and highly corrosive.

Trimming the bills



Fresh focus for clean challenge

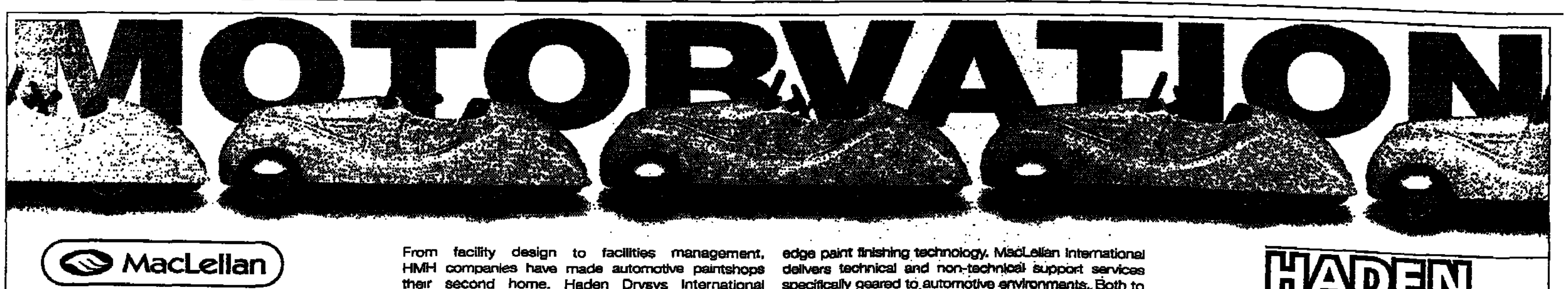
Continued from Page 1

to drive "gas-guzzlers" off the streets. The new standards being imposed by legislators on both sides of the Atlantic means car makers will have to run faster just to stand still.

That is partly because of the inherent paradox in current requirements. In demanding greater safety and lower emissions from new vehicles, most notably through increased crash protection and the ever more complex catalytic converters to curb emissions, legislators are making cars heavier. Consumers are demanding features such as air conditioning, and other comfort and convenience complexities.

The result can be seen in the latest fourth-generation Volkswagen Golf, for example, which is more than 25 per cent heavier than the first model. So while combustion technology has made its engine at least 25 per cent more fuel efficient than the original Golf, little or no progress has been made in terms of emissions of carbon dioxide, as this is directly proportional to weight.

Martin Kolk, a senior powertrain engineer with BMW, says the industry has reached the stage where there are now three times as many engineers working on the emissions elements of new engines as those developing the engine itself. But with so many masters to serve, it remains uncertain whether the industry can ever win.



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LEGISLATION by Mark Suzman in Washington

Time to reconsider

US stage is set for a new face-off between car producers, regulators and consumers

In the world of US motor vehicle emission standards, California is once again setting the trend.

In the mid-1960s the state was the first in the country to require emission control on cars. That move eventually led to the 1970 Clean Air Act that founded the Environmental Protection Agency (EPA), directing the new body to set national standards for air pollutants.

Now the Golden State is doing the same for light trucks, setting the stage for new standards for the next millennium.

Since California's first crusade, technology designed to reduce pollution has improved dramatically, most notably through use of catalytic converters, while emission rules have been steadily tightened.

In 1990, a new Clean Air Act built on its predecessor by introducing a comprehensive set of programmes intended to reduce motor vehicle pollution, including lower tailpipe standards, tougher emission testing procedures, new clean fuels programmes and vehicle technologies. Cars adhering to those standards have been in production since 1994.

But falling oil prices, combined with the consumer craze for buying sports utility vehicles – which are classified as light trucks for emissions purposes and hence do not have to meet the same tough standards as cars – has changed the picture dramatically.

Around 75 per cent of such vehicles are now used by families rather than businesses. They account for nearly half of all new vehicles sold and produce three-quarters of all vehicle emissions, a trend which has effectively offset the gains made by continued improvements in smaller cars.

That development has now led the state's regulators to reconsider the issue. Last month the California Air Resources Board, which sets standards for tailpipe emission within the state, decided that light trucks must be made to meet the same standards as cars starting in 2004.

By 2007 all cars, sports utility vehicles and light trucks that weigh 8,500 pounds or less will have to meet the same strict standards.

With the EPA planning to issue its own proposals for national standards on the subject within the next few months as part of a new set of clean air standards for all vehicles, the stage is set for a new face-off between car producers, regulators and consumers.

EPA officials say they are monitoring developments in California closely and will take them into account when they announce their own plans.

The moves are worrying for manufacturers, which have long argued that the tougher standards are unrealistic and over-expensive.

Although California regulators claim that complying with the new rules would only lead to additional costs in the range of $200 for each vehicle, car companies claim $1,500 is a more realistic figure.

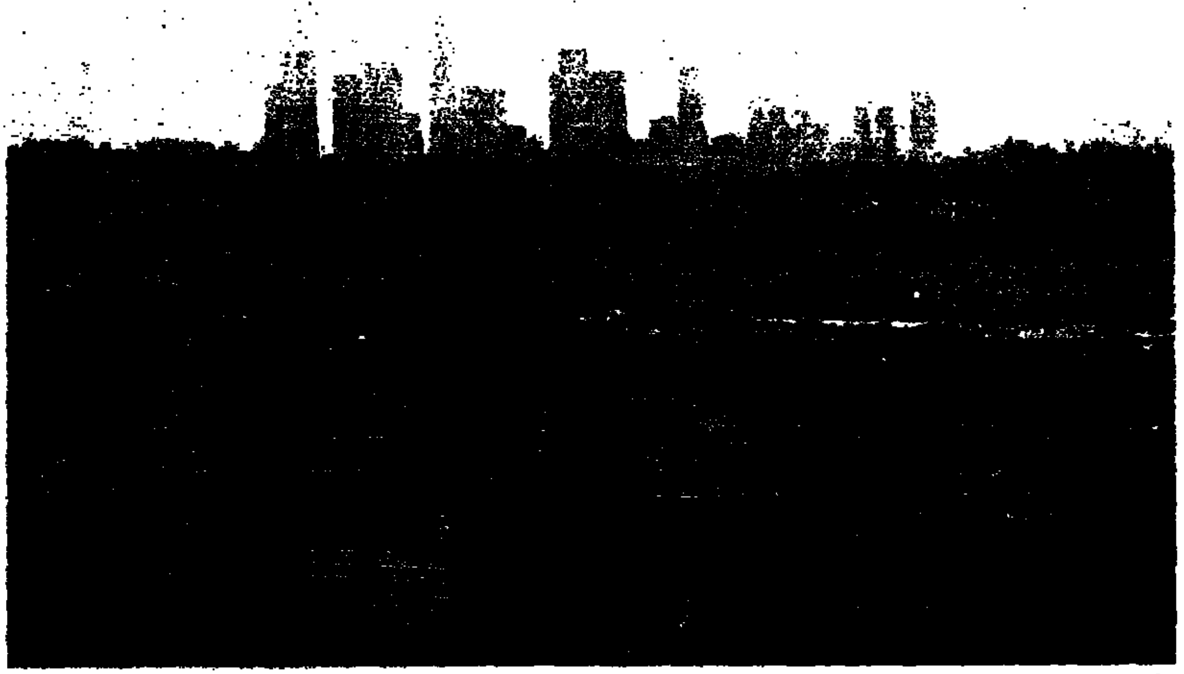
Perhaps the biggest obstacle to meeting the new standards is that the necessary technology does not yet exist. And that has opened up differences between big US car companies.

While *DaimlerChrysler* and General Motors both expressed disappointment at California's decision to push ahead with the new rules, Ford, which has made further technological strides, has taken a more neutral approach. The companies are also working with oil companies in an attempt to develop cleaner fuels.

So far their complaints have met with little sympathy. Instead, it appears that, after a period of relative neglect, federal and state governments are intent on taking a more aggressive approach on regulating auto emissions.

At least 15 states have recently adopted regulations requiring buses and trucks to undergo tests similar to those for cars.

Only last month the EPA and Justice Department announced a record $1bn settlement with diesel engine manufacturers, the largest civil penalty ever imposed for environmental violations.



Smoggy California: Sunrise over Glendale (foreground) and Los Angeles comes with a low, brown haze of pollution AP

The seven companies that agreed to the settlement were accused of designing software that bypassed controls designed to detect violations of the Clean Air Act regulations.

Some environmental groups charge that the fines were not sufficient and that the EPA should have removed offending vehicles from the road.

Instead, although they did not formally admit wrongdoing, the companies said the money would be used to introduce cleaner new engines, rebuild some of the older ones to reduce emissions and develop new emission control technologies.

"The diesel engine industry has illegally poured millions of tons of pollution into the air," Janet Reno, the attorney general, warned. "It is time for the industry to clean up its act and clean up our air."

LEGISLATION by Alexandra Harney in Tokyo

Criticised all round

The Japanese pressure groups' squeeze comes when government and industry face a variety of economic difficulties

Japan is coming under increasing pressure to improve its environmental protection legislation.

At the United Nations Framework Convention on Climate Change over the past two years, Japan has been criticised by other countries for its apparent inability to agree to the same anti-pollution targets as other industrial nations. This follows years of protests from the environmental community that Japan's domestic laws are too lax on polluters, and that its legislative process waters down even the most loose environmental restrictions.

The timing of the criticism could not be worse. Japan is struggling to climb out of its worst recession since the 1950s. The government is paralysed by the politics of economic stimulus packages, tax cuts, and shifting party alliances. Corporate Japan is dogged by deteriorating profitability as a result of the slowdown in consumer demand. There is precious little funding for the replacement of expensive equipment, or even substantial tax breaks.

Even worse, there is evidence that the country is polluting more than ever. Japan is believed to be the world's fourth-largest producer of greenhouse gases, which are the harmful chemicals produced by cars, trucks and factories that are blamed for a gradual warming of the planet.

The production of these gases hit a high in Japan in 1996, according to the Japanese government's environmental agency. Between 1990 and 1996, the volume of greenhouse gas emissions rose 8.8 per cent, reaching 378m tonnes in 1996. The environmental agency also expects that total emissions of carbon dioxide and other harmful gases will climb a further 21 per cent by 2010.

Despite its difficult position Japan has recently begun to adopt a more aggressive posture in pressing for its own initiatives.

At the meeting of the UN climate change convention last month Japan proposed a scheme that would allow industrialised countries to use foreign aid monies for environmental pollution measures in developing countries, and thereby achieve their agreed target for emissions reduction. It has also been an active proponent of "emissions rights trading", where countries can "sell" whatever part of its emissions quota that it has not used.

But Japan was sharply criticised by other conference delegates and the media for its own plan, known as the "clean development mechanism". Australia, and other countries, accused Japan of trying to reduce its contribution to a series of targets agreed at the same group's conference in Kyoto in December 1997.

At the Kyoto conference Japan pledged to lower its emissions from 1990 levels by 6 per cent by 2010 – among the lowest targets of the industrialised countries. The US, which is the world's largest greenhouse gas producer, said it would reduce emissions by 7 per cent between 2008 and 2012, and the European Union agreed to an 8 per cent cut. The conference adopted an average 5.2 per cent reduction target.

Japan has also introduced subsidies and tax breaks for low-emission cars and trucks, and has recently expanded these programmes to include diesel engine vehicles. Tokyo has also been negotiating co-operative agreements with Russia and China to introduce anti-pollution measures.

Critics say the Japanese government is dragging its feet in implementing environmental legislation, and that the private sector and local groups are responsible for most of Japan's progress on environmental issues.

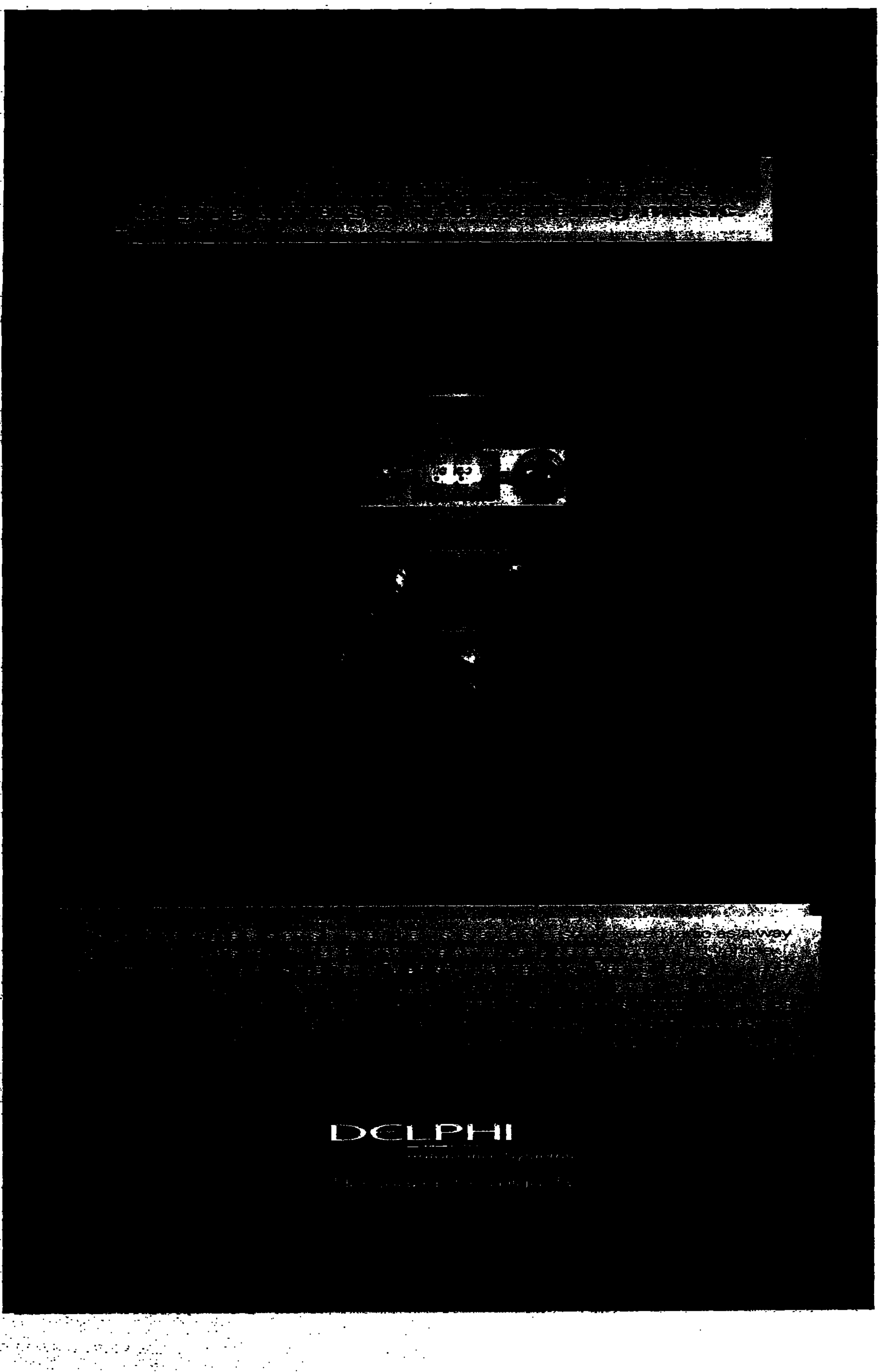
Steel companies, for example, have been improving efficiency and increasing use of blast furnace electricity generators. Toyota, the country's leading carmaker, has launched the world's first mass-produced hybrid vehicle – powered by both an electric motor and a gasoline engine – that the company claims produces only 50 per cent of the emissions of a comparable passenger car.

Mitsubishi Motor, another leading carmaker, manufactures several engines using a gasoline direct injection technology that lowers fuel consumption by 35 per cent and reduces the production of NOx by 97 per cent.

Nissan Motor makes a similar direct-injection engine that, it claims, improves fuel economy by 50 per cent. The group has also developed a car that can travel 100km on only three litres of petrol.

Citizen activist groups, which have been pressing for policy change since environmental hazards first gained public attention in the 1960s and 1970s, continue to influence local legislation, particularly in the regions outside of Tokyo. The residents of Maki city, for example, voted down the construction of a nuclear plant in their city in 1996. Other protest groups have been active against the noise and air pollution from the US military's bases in Okinawa, in southern Japan, and in the areas surrounding the international airport at Narita, north of Tokyo.

Until the larger economic issues gripping the Japanese government are resolved, the local public and private sector will be the best hope for progress on much-needed anti-pollution measures.



Correspondents take a look at two environmentally-friendly cars

VOLKSWAGEN by Haig Simonian

Lupo shows miserly nature at the pumps

Volkswagen's answer to the environmental car of the future took its bow at the Paris motor show in September. The "3-litre" Lupo does not refer to the diminutive hatchback's engine size, but the fact it will be the first production model to consume less than three litres of fuel per 100 kilometres.

Having broken through this "barrier" VW is not, however, resting on its laurels. Sometime next year the group's Audi executive cars subsidiary is expected to unveil its A2, an even more radical solution to the problems of pollution and fuel economy, which will have an unconventional body shape largely made out of aluminium.

For the time being, the Lupo has given the VW group a head start over most competitors. It has also fulfilled the ambition of Ferdinand Piëch, VW's abrasive group chairman, who, as Audi's boss in 1991, first set the company the target of developing an ultra-frugal car.

Based on the standard Lupo hatchback, which has just been launched (and is itself fundamentally the same vehicle as the Seat Arosa made by VW's Spanish subsidiary) the 3-litre Lupo achieves its extraordinary frugality in three main ways.

First, weight has been cut to the bone. Although sticking to conventional steel for much of the body, VW has opted for the latest reduced-weight sheet steel technology. However, some important body components, such as the bonnet, tailgate, doors and bumpers, are made from more esoteric lightweight materials, including plastic, aluminium and magnesium.

The super-economical Lupo also differs from conventional counterparts because of its wind-cheating features, such as unusually rounded bumpers.

A new clean-burning 1,200cc diesel engine lies at the heart of the 3-litre Lupo's fuel economy. The three-cylinder, high pressure direct injection turbocharged motor delivers 45kW (61 bhp) at 4,000 rpm.

Coupled with a five-speed automatic/manual gearbox, the car uses 2.99 litres of diesel per 100km. With a 34-litre fuel tank, that provides a range of about 1,000km between fuel stops.

The high-tech engine and exceptional fuel economy also keep emissions extremely low.

Driving impressions have been limited to a few short tests so far. Most have praised the vehicle's conception and quality. But, as with the controversial Smart two-seater built by Daimler-Benz, the new Lupo's lethargic gearbox – a penalty of its outstanding fuel economy – has come in for some criticism.

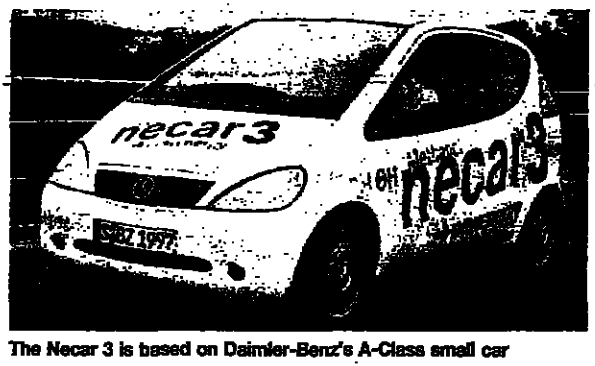
Others have noted that fighting the 3-litre Lupo's flab has involved significant modification to the suspension, compromising handling compared with standard versions. And the loss of power steering – fitted as standard on most Lupos – to save weight makes parking a drag. Electric power steering should become available later.

As ever, however, economy has its cost: VW has not revealed any prices, but the 3-litre Lupo is expected to cost about DM25,000 – about 15 per cent more than a conventional diesel-powered model. Given that price disadvantage, VW does not expect to build more than about 3,000 to 5,000 of the cars a year.

Irrespective of such low volumes, the 3-litre Lupo shows clever design, and is due to go on sale in Germany in the spring.

DAIMLER-BENZ by Kenneth Gooding

Necar 3 takes a drive down fuel cell road


The Necar 3 is based on Daimler-Benz's A-Class small car

Engineers at the Daimler-Benz fuel cell project group in Nabern, south of Stuttgart, have for the past year been test driving in local towns a special version of the group's smallest car, the A-class. This version is powered by a fuel cell and has been dubbed "Necar 3" (for new electric car).

Daimler-Benz decided to drive down the fuel cell route as recently as 1992 but says that, subject to a final decision next year, by 2004 it expects to put 40,000 fuel cell cars on the road each year.

Fuel cells offer one of the most attractive alternative propulsion systems to today's internal combustion engines. Potentially, cars using fuel cells would have high fuel efficiency, create virtually no exhaust emissions, but have a range and performance that matches most cars on the road today.

A fuel cell also shares many of a battery's characteristics – silent operation, no moving parts, and an electrochemical reaction to generate power. But, unlike a battery, a fuel cell needs no recharging and will run indefinitely if supplied with fuel. The chemical reaction in the cell is the combination of hydrogen with oxygen to produce electric power.

However, so far the motor industry has been battling to solve two substantial problems – the bulkiness of fuel cells and their cost. A conventional car driven by a fuel cell today would cost about £130,000. .

Necar 1, shown in 1994, was a big van stuffed with fuel cell apparatus. Necar 2, launched two years later, was based on the Mercedes V Class people carrier, 4.6 metres long and seating seven. On its roof were mounted hydrogen tanks which made it look heavy and bulky.

Necar 3, shown for the first time at the October 1997 Frankfurt Motor Show, is one of the smallest cars available, only 3.5 metres long. Daimler-Benz engineers are exploiting the A-class double floor sandwich construction to house the fuel cells and associated equipment, built by Ballard, the Canadian group which is Daimler-Benz's partner in fuel cell projects.

It took a policy shift by Daimler-Benz to achieve this feat. Ferdinand Panik, head of the fuel cell project group, says that while buses have enough space to accommodate the bulky pressurised hydrogen tanks, the best solution for cars is to turn liquid fuel into hydrogen on board the vehicle.

Methanol has been chosen as the fuel for Necar 3, partly because the hydrogen conversion process is efficient and also because it is versatile and can be obtained from a variety of sources, including natural gas and biomass.

Liquid fuel also has the advantage of giving a good driving range – 40 litres of methanol stored in the vehicle's conventional fuel tank will take the A-class 400 kilometres and it can be refueled without special safety measures as easily as a petrol or diesel-fueled car.

"Press the accelerator pedal and an astonishing 90 per cent of the system's power is available in just two seconds," Daimler-Benz claims. "In terms of driving dynamics, this puts fuel cell vehicles on a par with conventional gasoline or diesel-powered automobiles."

However, some carbon dioxide is produced during the methanol-to-hydrogen process, so the fuel cell A-Class is not a "zero emission" vehicle. Carbon dioxide is one of the gases blamed for global warming.

In the A-Class shown at Frankfurt, although the fuel cells were located under the passenger compartment, the methanol reformer unit, 47 centimetres high, was housed in the rear, taking up boot and back seat space. Mr Panik says Daimler-Benz will combine the reformer and catalyser in one unit which will fit under the floor of the vehicle to give exactly the same interior space as combustion-engined models.

By the end of 1999 Daimler-Benz hopes to have simplified or eliminated fuel cell components to a point where it will be possible to say whether the vehicle can be mass produced at a competitive price.

Economic turbulence has spread from Asia and Russia to South America. FT writers report on what is happening in the main markets

BRAZIL by Kenneth Gooding

Out comes the melting pot

Uncertaintly has led manufacturers of vehicles and components to review their huge investment programmes


Window-shopping at a São Paulo car showroom AP

The Brazilian government's determination to protect the Real, the local currency, from the worst effects of global economic turmoil have thrown the country's automotive industry into deep recession.

Understandably, this has prompted vehicle and component producers to have some second thoughts about the US$20bn of capital projects they have announced for the years 1996-2001.

Total vehicle sales in Brazil for 1998 are now expected to fall by 18.7 per cent from last year's level, to about 1.6m, according to the World Car Industry Forecast Report produced by Standard & Poor's DRI*.

The drop is even bigger in the car market, where sales are now forecast to be nearly 21 per cent below the 1997 level at just over 1.2m.

S&P DRI suggests new car registrations will continue to fall in 1999, to 1.15m, and will not approach the 1.57m seen last year until 2001.

By the end of August, according to Anfavea, Brazil's vehicle producers' association, new car sales were 21.1 per cent below the corresponding months of 1997 at 843,943. Domestically-produced cars bore the brunt of the slump, and sales were down 25.5 per cent to 707,570 in the eight months. Imported car sales actually moved up by 13.6 per cent to 136,373.

Some 70 per cent of Brazil's car sales depend on customers obtaining cheap credit, but this has been impossible to obtain for some time. The country's interest rates were boosted sharply a year ago and, following the Russian economic crisis, lifted again so that they are now at nearly 50 per cent.

For potential car buyers the situation was aggravated by the government's decision in November last year to increase income tax by 10 per cent, put up petrol sales tax by 6.3 per cent, and lift the sales tax on industrial products.

"The high interest rates and rising unemployment are likely to make financing difficult and force consumers to postpone buying decisions, leading to lower demand for cars," says Diego Portillo, of S&P DRI.

Vehicle production in Brazil has not been so badly affected. Car output is forecast to fall by 22 per cent, from 1.68m last year to 1.3m in 1998. Total vehicle production is expected to be 20 per cent below the 2.07m of last year, at 1.65m.

The "big four" local producers – Fiat, Ford, General Motors and Volkswagen – have all announced production cuts for the rest of the year. But this was too late to prevent car stocks in Brazil rising to about 200,000 by the end of September, equivalent to 50 days of sales compared with the normal 15 days.

Given this gloomy environment, it came as little surprise when GM cancelled the $4m investment to expand its foundry at São Jose dos Campos. It stressed, however, that investment in a new car plant at Gravatai, Rio Grande do Sul, was not affected. GM's annual investments in Brazil of $500m will be maintained next year.

Meanwhile, Audi, which is to complete a plant in Parana state in March next year, has revised downwards its expectations and now expects to sell 8,000 rather than 11,000 of the A3 models it will produce next year.

In contrast to GM's move, Daimler-Benz is bringing forward part of the $1bn it plans to spend over three years to revamp its product and assembly lines at its São Paulo state plant. An extra $100m will be spent next year instead of in 2000, taking the 1999 total to $217m.

It still seems that by 2003 Brazil would have 17 vehicle manufacturers compared with 13 in the US and 11 in the European Union, and production capacity is set to rise to 2.5m in 2001 and 3.5m in 2003.

There are several factors attracting automotive groups to Brazil. To start with it has a population of 160m, the biggest in Latin America. However, even though domestic vehicle sales growth rates in the 1990s have been among the highest in the world – achieving 43 per cent in 1993, for example – it has a vehicle ownership ratio of only one for every nine inhabitants. This is low, not just by industrial world standards but also compared with economies at roughly similar levels of development. Argentina, for example, has one car per 5.7 inhabitants.

The automotive groups are also keen to make Brazil the centre of their operations for the Mercosur region, the free trade zone established by Brazil, Argentina, Uruguay and Paraguay in 1991 and later joined by Chile and Bolivia. With 225m consumers, Mercosur has the potential to become a very big car market indeed.

The recent rush to Brazil has also sparked some big tax breaks being offered to automotive groups for setting up in the country. The producers also wanted to benefit from a highly-protected market before tariff barriers come down. At present, Brazil's domestic producers can import a given volume of cars without paying the substantial duty.

In the past year, Chrysler, Navistar, Honda and Toyota started to build new plants in Brazil. In late September, Ford announced plans to go ahead with a new plant in Rio Grande do Sul. Suzuki has outlined a project for Brazil and some component makers have also announced plans for investment or expansion. According to Mr Portillo, all this "indicates a long-term confidence in Brazil as a location for production".

* *World Car Industry Forecast Report; DRI, 1 Hartfield Road, Wimbledon, London SW19 3RU, UK*

ARGENTINA by Ken Warn in Buenos Aires

Market grates reverse gear

Producers have to rein in their output and reduce prices as consumers put the brakes on spending

The current global financial uncertainty has dealt Argentina's auto industry a double blow. Exports to Brazil, the destination for about 50 per cent of Argentine car production, have slumped, while the local market has gone into reverse due to rising consumer nervousness.

Auto production fell 14.7 per cent in October from the month before and 26.8 per cent against October 1997. Exports for the month were down 7.4 per cent on a year ago, while sales to the local market were down 17.5 per cent.

In September, the 11 international groups that make up the Argentine industry began announcing production breaks and fewer shifts at their plants. Manufacturers also embarked on a round of price cuts, promotions and special credit deals to tempt local consumers into driving away some of their rapidly-rising stocks. "But when people are not in the mood to buy there's not much you can do to change their minds," laments one local industry executive.

Consumers have reined-in spending amid fears that the sharp economic slowdown in the second half could translate into job losses. In the Argentine market, some 80 per cent of car sales are on long-term credit.

Falling sales to Brazil have only compounded the build-up of stocks. "The crisis in Brazil makes the problems here deeper," says Thierry Jadot, marketing executive for Peugeot. "Cars that would have been sold to Brazil are now on sale here – on promotion [special offer]."

Argentina is South America's second-biggest carmaker, accounting for 16 per cent of regional production, according to Standard & Poor's DRI. But it is dwarfed by neighbouring Brazil, with almost 74 per cent.

Uncertainty over the outlook for Brazil has made forecasting the Argentine industry's prospects next year especially difficult. "I think we have touched bottom, but it's very difficult to be sure," said Horacio Losoviz, president of the Argentine Automakers' Association (Adefa). "Our worst case scenario is for a 20 per cent fall in production next year. Our best is for 5 to 10 per cent growth."

But even with the recent precipitous falls in production, Argentina will still make 7 to 10 per cent more autos in 1998 than last year's total of 446,000, according to Mr Losoviz. The record tally in 1997 was itself 42 per cent up on 1996.

The industry, excluding components, has benefited from investment totalling $5bn since 1991 as international car companies have taken a long-term bet on Argentina's future as a key supplier in and beyond Mercosur, the customs union which also includes Brazil, Uruguay and Paraguay, with Chile and Bolivia as associates.

New entrants such as Chrysler and General Motors have started production in Argentina alongside long-established makers such as Ford and Volkswagen. Peugeot and Fiat, whose cars were previously made under licence in Argentina, have taken control of their respective marques and invested millions of dollars in new plant.

The quality of car building has soared as a result of the modernisation process. GM and Renault are exporting Argentine-built cars to Europe, although in low volumes.

Despite present difficulties, there are grounds for optimism over the industry's future, according to Mr Losoviz. Beyond the recent slowdown, growth prospects for both Argentina and Brazil are high, he believes. The region's stock of cars is old and car ownership is low – only 1 car per 5.7 inhabitants in Argentina against 1 per 1.2 inhabitants in the US.

Car sales are strongly linked to changes in GDP per capita, and Argentina and Brazil are both at stages in their economic development where relatively modest rises in income translate into big rises in sales, says Claudio San Pedro, commercial director at Fiat.

Given such strong long-term positives, investment in the Argentine industry will continue, according to Mr Losoviz. "Companies may ease off the accelerator a bit, but there will be no change in direction."

However, another question mark over the industry remains the future of the complex trade accord between Argentina and Brazil, which calls for the auto trade between the two to be kept in balance.

This accord runs out at January 1 2000, and negotiations aimed at securing a replacement have hit several obstacles, especially Argentine complaints that Brazil's states continue to offer fiscal incentives for auto industry investment.

Although Argentina has a long history of car production, the modern industry remains a largely artificial creation, still protected by a 35 per cent external tariff on cars made by companies that do not produce in Mercosur. The prospect of ready exports into the Brazilian market is a major part of the Argentine industry's *raison d'être*. Automakers are lobbying hard for continuing protection from the full blast of competition beyond 2000.

"Argentina clearly aims to protect its position as a producer in these negotiations," says Peugeot's Mr Jadot. "But we believe very firmly that both Brazil and Argentina have a motor industry future."

ROUND-UP by Raymond Colitt in Caracas

Slippery slopes in the Andes

Extreme fluctuations in demand pose a problem for production planners

Auto assemblers in the five-nation Andean Community (AC), the regional customs union, have been riding on an economic roller-coaster in recent years, and face an uncertain future as foreign competition is stepping up and protective barriers are threatening to crumble.

In each of the three principal auto manufacturing countries of the region – Venezuela, Colombia, and Ecuador – economic volatility has led annual production of vehicles to fluctuate dramatically.

Venezuela's automotive industry, the largest of the AC, last year grew by 162.2 per cent, one of the fastest rates worldwide. According to the Venezuelan automotive chamber (Cavenez), sales totalled 178,034 units last year, up from 67,000 in 1996. For Chrysler, the US car manufacturer which has a local plant capable of producing 24,000 units per year, Venezuela became its largest market outside the North American Free Trade Area (Canada, the US, and Mexico) with sales of 20,716 units.

Total sales in 1998 could match those of last year, but demand has dropped sharply from 19,000 in March to fewer than 8,000 per month now. The principal culprit: interest rates that rose steeply as a result of budgetary and political uncertainty.

Germán Pérez, head of Cavenez says the outlook for 1999 remains bleak. With only minimal economic growth expected, sales may fall by some 45 per cent.

Extreme fluctuations in demand present challenges in planning a plant's production capacity, says Alfredo Behrens, president of Toyota de Venezuela. "When we had a three-month backlog in orders because of high demand last year, and the prospects for growth this year looked good, we were considering expanding capacity," says Mr Behrens. Instead, the company introduced a second-shift. Now, with sales having plummeted, Mr Behrens is "happy not to have expanded then".

In Colombia, manufacturers have invested some $100m over the past two years to modernise plants and obtain international certifications of quality – only to see demand slump. Sales for the first nine months of 1998 were down nearly 10 per cent and domestic production in September was down 24.85 per cent over the previous year. Again, government budget cuts and high interest rates are the principal cause of economic malaise.

In addition, Colombian manufacturers are losing a large share of their market to imported vehicles. The volume of imports has jumped from only 15 per cent of total sales a year ago to nearly 50 per cent this year. Camilo Llinás, head of the Colombian Automobile Manufacturers' Association, Acolfa, accuses South Korean manufacturers of dumping.

Ecuador's production has also been volatile, falling from 33,869 units in 1994 to 18,924 in 1996, only to recover to just under 25,000 units last year. The country is expecting a decline of 20 to 25 per cent next year.

Although some auto manufacturers in Venezuela command gross profit margins of around 15 per cent, Andean carmakers are only competitive behind the common protective tariff barriers (35 to 40 per cent) of the customs union. Industry analysts say the underlying problem in markets where imports make up to one-third of a country's new registrations is the lack of economies of scale.

"The markets we operate in are small so we need tariff protection to continue operating," says Marcelo Rovayo, head of the Chamber of the Ecuadorian Automobile Industry (CINAE).

The next year may be a crucial one for the future of the region's automobile industry. A trade agreement is to be signed with the four-nation trade block, Mercosur, which includes the heavyweight South American auto producers Brazil and Argentina. Andean manufacturers say they cannot meet Mercosur's 60 per cent local content requirement and are asking their governments to negotiate an exemption.

In addition, Andean manufacturers fear trade barriers could further crumble under the guidelines of the World Trade Organisation. "If our markets were opened to used car sales, as the WTO stipulates, then we would all be wiped out," says Toyota's Mr Behrens.

NON-FRANCHISED DErALERS by John Griffiths

Buyers take a shine to the 'grey' imports

Japan and the US have been at the forefront of a fast-growing trade. Now Europe is becoming increasingly involved, to the concern of some sections of the industry

By the end of this year, shipping companies will have carried more than 1m so-called "grey" cars – new or used vehicles traded outside manufacturers' franchised dealer systems – to destinations around the world, predicts Jonathan Palmer, chief executive of Ugland International, one of the large shipping groups handling the business.

That represents growth of more than one-quarter over the previous 12 months. So confident is Ugland that the trade will continue to grow that it has bought its own terminal facilities near Orlando, Florida, to process used cars streaming out of five nearby auction centres at the rate of 10 a minute during trading hours. Nearly 20 per cent of those vehicles will find their way on to Ugland ships for despatch to whatever markets independent motor dealers brokering the trade can find for them.

From Japan, Ugland's and other carriers' ships set out laden with used cars as little as three years old – but rendered almost valueless by Japan's draconian road worthiness testing laws designed to ensure that all cars fail after, at most, four or five years.

For a long time this cosy arrangement between Japan's government and motor industry was considered by both parties to have worked well. It has kept the country's production lines busy and Japanese consumers spending regularly on new cars while allowing impecunious buyers in developing countries cheap access to their cast-offs.

US manufacturers, too, are happy to see used cars leaving North America's shores to prevent a glut of second-hand vehicles dragging down new car price levels. But the grey tide is becoming a flood. And, to the alarm of carmakers and "official" importers – particularly in Europe – it has been changing direction.

It is now reaching the shores of Europe – and in particular the UK – as the result of collapsing demand in developing countries ravaged by financial crises; currencies weakened in comparison with those of Europe; and the belated realisation by independent traders of the fat profits that can be made in a region where the high prices charged for new cars are encountering increasingly severe criticism from consumer groups and governments.

New car prices in both North America and Japan, at prevailing exchange rates, are around 40 per cent lower than Europe's for broadly similar models.

"Grey" car imports need defining more precisely. They can be new or used, and enter markets by means other than through the franchised dealer networks of car manufacturers. Primarily they are handled by independent motor traders, although there is scope for individuals to make "personal", non-commercial imports.

While the bulk of such imports tends to be of cheap, used cars, some independent traders – to the fury of companies such as Mitsubishi, Subaru and Mazda – are making substantial profits from high-performance or luxurious models sold in Japan but which carmakers or their franchised outlets have chosen, for marketing reasons, either not to sell in Europe or to sell only in very limited quantities.

"Grey" cars thus differ from so-called parallel imports – cars bought by citizens of one EU country exercising their right, guaranteed under EU competition laws, to buy the new car of their choice through a franchised dealer in any other EU market where they consider it cheapest.

With the most recent six-monthly EU Commission comparative study of new car prices across the EU showing disparities of up to 58 per cent between the cheapest markets of southern Europe and the dearest – the UK – the incentive for consumers to shop around has become considerable.

Carmakers have learned that to obstruct such legitimate trade – which includes the obligation of a Belgian dealer, say, to supply a British buyer with a right-hand-drive model – can be costly. Volkswagen has been fined Ecu102m by the European Court of Justice for falling foul of this legislation.

However, research by consumer groups indicates that some manufacturers are still doing their best to at least hinder the trade, while stopping short of overtly flouting competition laws. As a result, they are mounting an increasingly militant campaign, seeking to dissuade the European Commission from renewing the Block Exemption from normal EU competition rules which the motor trade and industry has been enjoying for nearly two decades.

Developments in the UK during the past few weeks may have considerable influence over the outcome of the debate about whether the current Block Exemption should be renewed when it expires in 2002, or whether the market should be opened up to greater competition.

Because, like Japan, the UK market is for right-hand-drive vehicles, it has been the main target of Japanese "grey" imports. To date, however, they have been restricted, at least theoretically, to "personal" imports by individuals – circumvented to some extent by traders providing spurious personal import services – or to commercial imports by independent traders within the UK government's so-called Single Vehicle Approval (SVA) scheme. This has allowed "grey" cars to be imported commercially subject to them being able to meet government-devised tests showing they were suitable for use on UK roads even though they have not undergone the EU's own official "type approval" testing.

Under pressure from the "official" trade and industry, however, these imports hitherto have been limited to 50 units of any one model per year. Although independent traders have been selling them at up to 30 per cent cheaper than equivalent officially-imported models, the "official" trade has argued strongly that they may not have equivalent specifications to officially-imported models, and that they are not the bargain they may appear because parts and servicing may be difficult.

Heading for the road – but many new Japanese cars are unlikely to stay there long AP

But the clamour for a "better deal" for consumers has been growing, and the UK government has now published a consultation paper indicating that the numerical limits on "grey" imports capable of meeting a stiffer form of SVA test will be lifted by next spring, opening up the prospect of real competition to the franchised dealer system from independent traders.

Other developments have put the UK motor trade increasingly on the defensive. At an inquiry into new car pricing held by an all-party group of MPs in October, short shrift was given to motor trade and industry executives arguing that high prices in the UK are the result mainly of exchange rates and the inability of EU governments to harmonise VAT and other purchase-related taxation.

An indication from the Office of Fair Trading that it is poised to refer to the Monopolies and Mergers Commission what it suspects is a complex monopoly operating in the trade, keeping prices higher than they would otherwise be, has done little to help the "official" motor trade's cause.

The European Consumers' Union (BEUC) has been watching developments closely and is likely to increase its own opposition to renewal of the Block Exemption.

The start of European monetary union next year may have some mitigating effect if, as the industry suggests, the introduction of the euro makes car pricing across the EU more transparent and reduces the differences between individual markets. Whether it will be enough to convince Brussels that consumers are not getting such a bad deal after all remains open to serious doubt.

ALBION AUTOMOTIVE by Haig Simonian

Axle business rolling along

Acquisition of Glasgow business should strengthen AAM's position in world market

Rationalisation among suppliers must really be moving when one management buy-out acquires another.

American Axle & Manufacturing, the axles and components company created in 1994 after a buy-out of various General Motors businesses, has made its first purchase, Albion Automotive.

Glasgow-based Albion, formed in 1993 from the axles and crankshafts business of the collapsed Daf group, once seemed an even stranger case than AAM's mixed bag of businesses. While the US group could at least rely on continuing business from GM, which was divesting non-core or unprofitable operations, Albion's sole customer had just gone bust.

Albion recovered after the revival of various ex-Daf operations, such as Leyland Trucks in the UK and the reconstituted Daf Trucks in the Netherlands. Gradually it gained new customers, including Perkins, the diesel engine specialist now owned by Caterpillar. Renewed cash-flow even allowed modest acquisitions, such as the axles manufacturing operation of Leyland Trucks and the transmissions unit of Volvo Bus in the UK.

The latest move marks a logical step, says Mike Straney, AAM's former vice-president of mergers and acquisitions, whose title and location are changing with the purchase of Albion. Mr Straney will now move to Glasgow as AAM's new vice-president for Europe.

The deal, for an undisclosed sum, should strengthen AAM's position in the world axles business, dominated by big manufacturers such as Dana and Meritor. Albion will add 1,150 workers and £78m in sales to AAM's 8,500 workforce and turnover of $2.2bn.

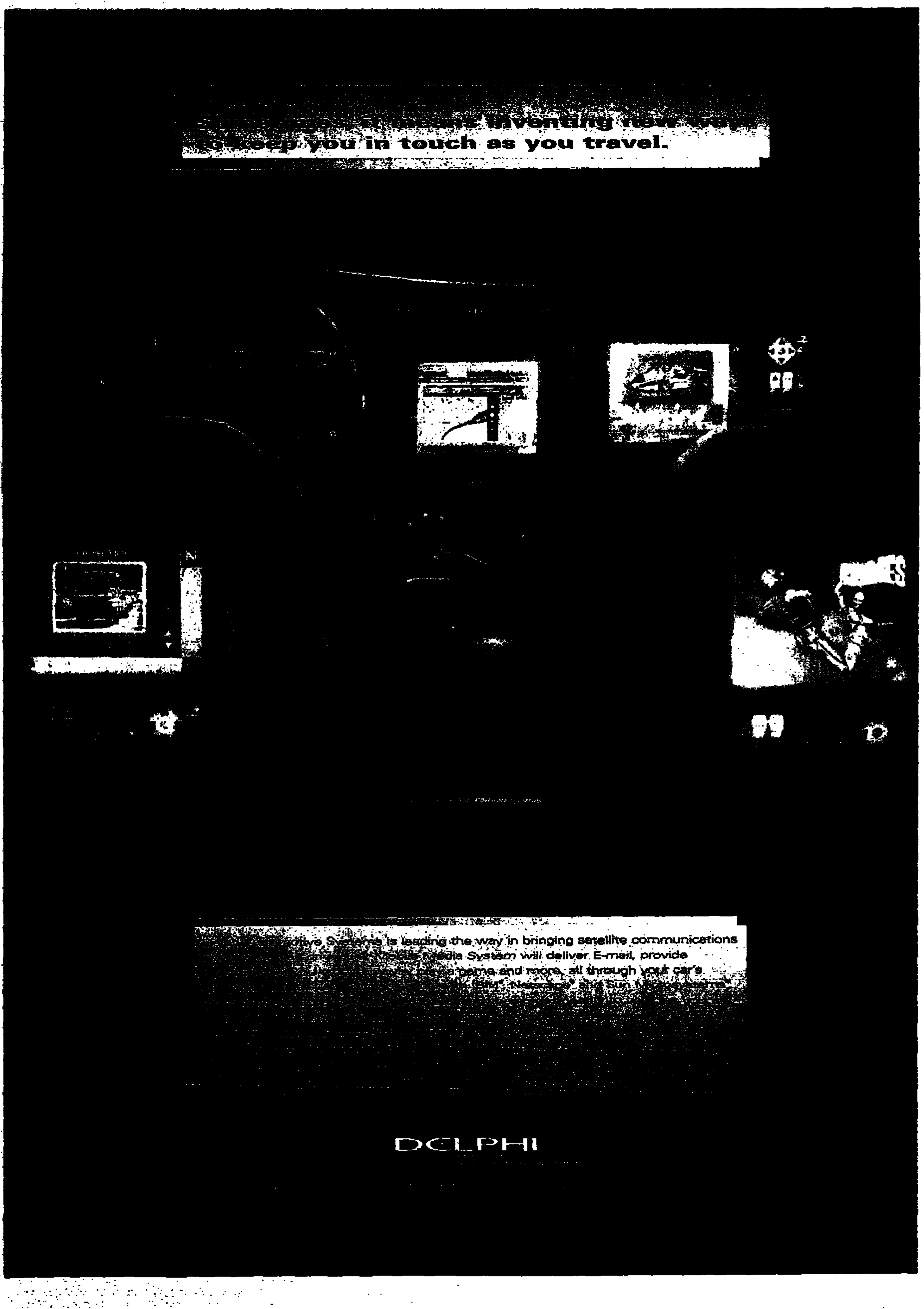
The two companies certainly fit well. AAM makes parts for cars, people carriers and sports utility vehicles, while Albion specialises in axles and parts for heavy trucks. The two companies first made contact in May 1994 and agreed to stay in touch: a formal approach was made this year.

The acquisition provides AAM, which has broadened its customer base to include seven vehicle makers, a further boost. "Incorporating Albion into AAM means that, in one stroke, we acquire new capabilities – in particular, a proven track record in international market development," says Mr Straney.

Both sides stress Albion will be run independently under chief executive Jim Hastie. "While we have made tremendous progress as an independent components supplier, we can do much more with the strength of AAM supporting us," he says. AAM hopes Albion's experience in components for trucks and buses will now enable it to pitch for business in the highly-competitive North American market.

The deal may not mark the end of AAM's international ambitions. In its first four years the company had its hands full at home coping with surging demand for parts because of the sports utility boom. "We really refrained from looking for outside ventures," Mr Straney says.

How quickly it pushes ahead will depend partly, however, on US investors' taste for automotive paper. Earlier this year the company, which does not disclose its financial results, filed plans for an initial public share offering. The proceeds could partly have been used to bankroll further acquisitions. Now its plan may have been hit by the steep falls in cyclical stocks. "Let's say it's alive, but on hold," Mr Straney says.



Europe's carmakers steer good course

Results for the first nine months of 1998 suggest that in the course of the full year western Europe's car industry will record its highest aggregate profit since the peak of 1989, writes Jonathan Storey.

Fiat Auto is the principal exception to the generally favourable outlook for profits growth. The Italian carmaker has been adversely affected by the combination of a declining Brazilian market (which usually accounts for 19 per cent of Fiat Auto's worldwide unit sales) and the ending of government-funded car-sales incentives in Italy at the end of July 1998.

How is it that the earnings of western Europe's carmakers are, for the most part, booming when we are so often told the industry is suffering from excess capacity?

For a start, many industry capacity figures which are reported in the trade press and elsewhere should be treated with caution. Such figures are typically compiled by adding up the theoretical maximum capacities of all Europe's car assembly plants and arriving at an aggregate figure which is simply unachievable in real operating conditions.

Furthermore, the capacity picture is dynamic. There will always be some manufacturers with too little capacity and some with too much, or it will be in the wrong place, or the levels of automation will be too high or too low.

While there is clearly a link between capacity utilisation and profitability, that link is also dynamic. It does not automatically follow that if the industry is operating with greater excess capacity than, say, five years ago, profits should be falling. Nor does it necessarily follow, as has been suggested, that rising profits at a time of supposed excess capacity reflects the wider leverage afforded carmakers by the selective distribution systems which prevail in Europe.

Over the past decade most carmakers have worked to lower their break-even volumes by introducing more flexible manufacturing techniques and outsourcing more components and services. Consequently such manufacturers are now capable of operating profitably at lower levels of capacity utilisation.

Passenger car producers

Europe	Currency	REVENUE 1998	REVENUE 1997	REVENUE Percentage change (1998/97)	PROFIT 1998	PROFIT 1997	PROFIT Percentage change (1998/97)	Europe
BMW	DM(m)	46075	43830	5.1%	n.a.	n.a.		BMW
Daimler-Benz (cars)	DM(m)	48200	38315	20.8%	2977	n.a.		*Daimler-Benz (cars)
VW Group	DM(m)	99950	84011	19.0%	1507	852	76.9%	**VW Group
Fiat Auto	L(bn)	36735	37529	-2.1%	38	1165	-96.7%	*Fiat Auto
PSA	FFr(m)	165149	146907	12.4%	n.a.	n.a.		PSA
Renault Automobile	FFr(m)	145192	120692	20.3%	n.a.	n.a.		Renault Automobile
Volvo Cars	SKr(m)	73936	70005	5.6%	2555	3273	-21.9%	*Volvo Cars
		Figures are for the period Jan-Sep			Figures are for the period Jan-Sep			
Japan								Japan
Honda	¥(bn)	3133.5	2794.7	12.1%	158.2	126.5	25.1%	**Honda
Mazda	¥(bn)	1061.5	1025.3	3.5%	8.5	-18.2	146.7%	**Mazda
Mitsubishi (non-consol)	¥(bn)	1106.3	1319.5	-16.2%	-28.6	8.6	-433.0%	**Mitsubishi (non-consol)
Nissan (non-consol)	¥(bn)	1638.5	1776.1	-7.7%	-32.5	38.5	-184.4%	**Nissan (non-consol)
Toyota	¥(bn)	6200.0	5560.0	11.5%	192.7	240.9	-20.0%	**Toyota
		April-September			April-September			
US								US
Chrysler	$(m)	48800	43700	11.7%	2737	1943	40.9%	**Chrysler
Ford Automotive	$(m)	86879	91038	-4.6%	3932	3373	16.6%	**Ford Automotive
GM	$(m)	114895	129277	-11.1%	1136	4879	-76.7%	**GM
		January-September			January-September			

* Operating profit ** Net profit

Production of passenger cars ('000)*

Western Europe	1995	1996	1997	1998 (Jan-Sep)	1997 (Jan-Sep)	% change (Jan-Sep 98/97)
Austria	59	97	91	60	69	-12.3
Belgium	1168	1144	1005	715	775	-7.7
Finland	0	0	2.0	8.0	0	-
France	2193	2277	2541	1877	1671	12.3
Germany	3853	4048	4209	3876	3495	10.9
Italy	1422	1318	1563	1066	1170	-8.9
Netherlands	100	145	197	181	133	36.5
Portugal	73	153	186	137	132	4.0
Spain	1959	1942	2010	1610	1467	9.8
Sweden	244	224	230	253	272	-6.8
UK	1532	1686	1698	1314	1247	5.3
Total	12803	13034	13732	11095	10491	5.4
Eastern Europe						
Bulgaria**	2.0	1.0	0	0	0	-
Former CSFR	193	240	321	277	232	19.2
Former USSR**	893	888	1052	562	560	0.4
Former Yugoslavia**	7.0	8.0	11.0	10.0	8.0	22.0
Hungary**	39	52	64	59	48	22.9
Poland**	366	393	398	313	274	14.2
Romania**	92	117	128	101	96	5.5
Total	1591	1699	1974	1322	1218	8.5

N. America Free Trade Agreement	1995	1996	1997	1998 (Jan-Sep)	1997 (Jan-Sep)	% change (Jan-Sep 98/97)
Canada	1357	1292	1376	1093	1058	3.4
Mexico	697	801	839	646	631	2.5
US	6342	6070	6004	4178	4480	-6.7
Total	8397	8163	8219	5918	6168	-4.1
Latin America						
Argentina	227	264	326	282	264	6.5
Brazil	1303	1467	1676	1026	1304	-21.3
Rest of Latin America	0	3.0	11.0	10.0	9.0	11.1
Total	1530	1734	2013	1318	1578	-16.5
Asia						
China**	262	321	378	244	277	-11.9
India**	394	471	474	364	367	-0.8
Japan	7611	7864	8492	5927	6437	-7.9
Malaysia**	163	228	225	111	207	-46.4
South Korea	2003	2265	2308	1139	1704	-33.2
Taiwan**	274	262	268	198	201	-1.6
Total	10707	11411	12145	7983	9193	-13.2
Australia**	320	333	300	226	227	-0.4
South Africa**	182	175	171	111	128	-13.4
Turkey	207	190	225	183	166	10.2
WORLD	35538	36739	38779	28159	29111	-3.3

* Production statistics are cleared of double-counting ** Half-year data includes estimates

Data provided by Marketing Systems

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1997 (Jan-Sep)	% change (Jan-Sep 98/97)
Western Europe						
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.4
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.4
Denmark	[illegible]	[illegible]	153	[illegible]	[illegible]	4.5
Finland	[illegible]	[illegible]	105	[illegible]	[illegible]	17.3
France	[illegible]	[illegible]	[illegible]	1421	1248	13.9
Germany	[illegible]	[illegible]	3528	2821	2704	4.3
Greece	[illegible]	[illegible]	162	142	126	12.9
Ireland	87	[illegible]	137	134	116	16.2
Italy	1745	[illegible]	[illegible]	[illegible]	1857	-2.4
Luxembourg	[illegible]	[illegible]	32	29	[illegible]	12.8
Netherlands	[illegible]	[illegible]	478	441	395	11.8
Norway	[illegible]	[illegible]	128	94	97	-2.9
Portugal	209	[illegible]	213	186	161	15.6
Spain	834	911	1016	867	753	15.2
Sweden	270	190	225	183	163	12.3
Switzerland	268	272	271	225	218	3.2
UK	1946	2026	2171	1843	1777	3.7
Others	14	14	15	11	11	0
Total	12065	12610	13413	11120	10396	7.0
Eastern Europe						
Bulgaria*	11	8.0	8.0	10	6.0	65.8
Former CSFR	136	228	230	159	168	-5.4
Former USSR*	767	842	987	664	748	-11.2
Former Yugoslavia	66	86	132	99	84	18.0
Hungary	69	75	80	76	55	38.7
Poland	264	375	478	406	371	9.4
Romania*	86	97	98	79	72	9.4
Total	1401	1718	2020	1492	1504	-0.8
North America Free Trade Agreement						
Canada	577	570	739	579	574	0.7
Mexico	117	206	364	309	198	56.1
US	8636	8521	8289	6185	6394	-3.3
Total	9430	9390	9392	7072	7166	-1.3
Latin America						
Argentina	275	296	316	256	233	9.9
Brazil	1411	1409	1561	972	1368	-28.9
Rest of Latin America	529	540	674	559	506	10.5
Total	2215	2237	2551	1788	2105	-15.1
Asia						
China	433	401	466	287	342	-16.1
India	394	465	498	374	406	-7.8
Indonesia	38	44	73	9	55	-83.0
Japan	4444	4669	4492	3076	3441	-10.6
Malaysia	228	280	315	91	237	-61.6
Philippines	71	89	75	28	62	-54.8
South Korea	1156	1249	1159	388	904	-57.1
Taiwan	415	363	356	191	271	-29.5
Thailand	163	173	132	33	117	-71.6
Rest of Asia*	172	185	214	166	161	3.2
Total	7514	7918	7781	4644	5995	-22.5
Middle East						
Turkey	199	217	295	203	200	1.4
Rest of Middle East*	454	499	540	434	405	7.2
Total	653	716	835	637	605	5.3
Africa*	458	550	525	419	394	6.3
Oceania*	588	583	588	441	439	0.5
WORLD	34294	35921	37045	27612	28605	-3.5

* Data for Jan-Sep 1997 and 1998 is estimated

CENTRAL-EASTERN EUROPE

Daewoo still in VW slipstream

Volkswagen, the top-selling auto group in western Europe, kept a firm lead in the fast-growing markets of central-eastern Europe in the first nine months of this year, but Daewoo continued to gain ground, while Fiat slipped further.

Overall, sales of vehicles up to 3.5 tonnes gross in the three quarters rose 9.4 per cent from 844,010 units in the corresponding 1997 period to 923,107 units in the nine countries compiling reliable data – Bulgaria, Croatia, the Czech Republic, Hungary, Lithuania, Poland, Romania, Slovakia and Slovenia.

Volkswagen, including the Audi, Seat, Skoda and VW marques, held its market share above 20 per cent, but its performance this year has suffered from a downturn in its main market, the Czech Republic. The German company's regional sales fell 1.3 per cent.

Daewoo, the South Korean manufacturer that has become a significant force by buying six state-owned automakers in the region since 1995, boosted nine-month sales 23.4 per cent. This growth cut VW's edge over Daewoo from 56,636 units last year to 22,031 units this year.

Daewoo, Fiat and VW were the only groups to sell more than 100,000 units in the region during January to September this year. Together they captured 55.6 per cent of the market.

Meanwhile, Fiat's sales dropped 3.2 per cent from 158,424 units in 1997 to 153,402 units in 1998. The Italian group, which includes Alfa Romeo, Fiat, Iveco, Lancia and several speciality brands, is paying the price for its narrow focus in the region. It owns a massive carmaking complex in Poland, but it builds no light vehicles elsewhere in central-eastern Europe.

Following the "big three" were Dacia, of Romania, with 76,905 units, General Motors (65,420), Renault (51,344), and Peugeot-Citroen (46,688).

VW has built its market on a broad presence in the region. The German group still centres its strategy on the Czech brand, Skoda, but it also assembles models from each of its four marques in Poland. It makes gearboxes and VW cars in Slovakia, and it assembles Audi's new TT roadster in Hungary.

Daewoo could overtake VW early next year if it continues to make progress in Romania, where it is the only foreign investor to produce cars.

Ryan James Tutak

New light vehicle registrations

January-September 1998

	Volume (Units)	Volume Change(%)	Share (%) Jan-Sep 98	Share (%) Jan-Sep 97
TOTAL MARKET	923,107	+9.4	100.0	100.0
MANUFACTURERS:				
Volkswagen group	191,650	-1.3	20.7	22.9
– Volkswagen	48,796	+9.7	5.3	5.3
– Audi	4,732	+10.2	0.5	0.5
– Seat	18,820	-12.4	2.0	2.5
– Skoda*	118,702	-3.7	12.9	14.6
Daewoo group	169,019	+23.4	18.3	16.2
Fiat group	153,402	-3.2	16.6	18.8
– Fiat	147,292	-5.0	16.0	18.4
– Other	6,110	+77.0	0.7	0.4
Dacia	76,905	+12.0	8.3	8.1
General Motors	65,420	+8.2	7.1	7.3
– Opel	65,088	+8.0	7.1	7.3
Renault	51,344	+15.9	5.6	5.2
PSA Peugeot Citroen	46,688	+14.0	5.1	4.9
– Citroen	25,728	+21.6	2.8	2.5
– Peugeot	20,960	+5.9	2.3	2.3
Ford group	45,642	+15.2	4.9	4.7
– Ford	45,586	+15.3	4.9	4.7
– Other	56	21.1	0.0	0.0
Toyota group	20,453	+58.4	2.2	1.5
– Toyota	20,221	+58.2	2.2	1.5
– Other	232	+75.8	0.0	0.0
Suzuki	20,072	+39.7	2.2	1.7
Hyundai group	17,380	+30.9	1.9	1.6
Honda	15,889	+33.5	1.7	1.4
Nissan	13,820	+13.6	1.5	1.4
DaimlerChrysler	9,807	+12.5	1.1	1.0
– Mercedes-Benz	8,778	+19.6	1.0	0.9
– Chrysler	919	–24.6	0.1	0.1
– Other	110	–30.4	0.0	0.0
Mazda	8,626	+12.0	0.9	0.9
BMW group	4,996	-10.6	0.5	0.7
BMW	2,335	+18.9	0.3	0.2
Other	2,661	-26.6	0.3	0.4
Mitsubishi	4,986	+30.5	0.5	0.5
Volvo	2,330	+28.1	0.3	0.2
Korean total	186,399	+24.1	20.2	17.8
Japanese total	84,281	+33.2	9.1	7.5
Other	5,268	-31.8	0.6	0.9
MARKETS:				
Poland	443,728	+8.2	48.1	48.6
Czech Republic	118,096	-17.75	12.8	17.0
Romania	100,845	+28.8	10.9	9.2
Hungary	90,890	+38.0	9.8	7.8
Slovenia	55,756	+5.3	6.0	6.3
Slovakia	53,624	+8.8	5.8	5.8
Croatia	46,570	+28.0	5.0	4.4
Bulgaria	8,889	+73.7	1.0	0.6
Lithuania	4,989	+81.2	0.5	0.4

Notes: Some figures are rounded. BMW Other includes Land-Rover, MG and Rover; DaimlerChrysler Other includes Dodge, Eagle, Jeep and Plymouth; Fiat Other includes Alfa Romeo, Autobianchi, Ferrari, Innocenti, Iveco, Lancia and Maserati; Ford Other includes Aston Martin, Jaguar, Lincoln and Mercury; GM Other includes Cadillac, Chevrolet, GMC, Pontiac and Saturn; Hyundai group includes Daihatsu and Lexus; VW owns 70% of Skoda

Source: RJT Information Services

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DESIGN AND DEVELOPMENT CENTRES by Haig Simonian

Bigger can be better . . . as well as faster

The days of departments being scattered around various buildings are coming to an end. Manufacturers are reaping the rewards of working under one roof

A new competitive benchmark has crept into motor industry talk. Rather than output, profits, or even their vehicles' performance, executives are starting to brag about the size of their technology centres.

Two of the largest have been taking final shape in recent months. In Guyancourt, on the western outskirts of Paris, 150 hectares of farmland have given way to a group of low-lying buildings forming Renault's new Technocentre.

Just south of Stuttgart, a similarly grandiose project is taking shape at Sindelfingen. There, Daimler-Benz is building a new headquarters for its car design and development work.

The two centres have much in common. Renault's Technocentre, which claims to have been the biggest building site in Europe, will eventually house 7,500 engineers, designers and supplier staff. Daimler-Benz's centre, though more compact, will have about as many on site when it fully opens in 2000. With the design team already installed, most of the new arrivals will come during next year.

Both complexes symbolise carmakers' determination to accelerate product development times and cut costs by concentrating and co-ordinating R&D much more efficiently than in the past.

Renault's FFr5.5bn Technocentre brings together the group's entire car development staff, formerly split between numerous Parisian locations. Daimler-Benz's DM1.3bn complex is as ambitious: the new site will eventually house personnel previously split between 18 sites. Separately, the company is centralising its 3,000-strong engine, gearbox and axle R&D activities at a second, smaller plant at Untertürkheim.

Approached via an artificial lake and fountains which would not look out of place at Versailles, the shallow slanting columns of Renault's Technocentre are far more striking than Daimler-Benz's more sober complex. The Germans have, however, allowed themselves a little more levity in the fan-shaped design centre styled by Italy's Renzo Piano, one of Europe's best known architects.

Whatever their external differences, the hearts of both centres are much the same. Both have beehive-like buildings housing the platform teams for their products. Unlike the functional structures of the past, this is where designers, engineers, manufacturing specialists and finance and marketing men come together in single platform or product groups. Renault even underlines the matrix nature of the teamwork work by calling this part of its complex the "hive".

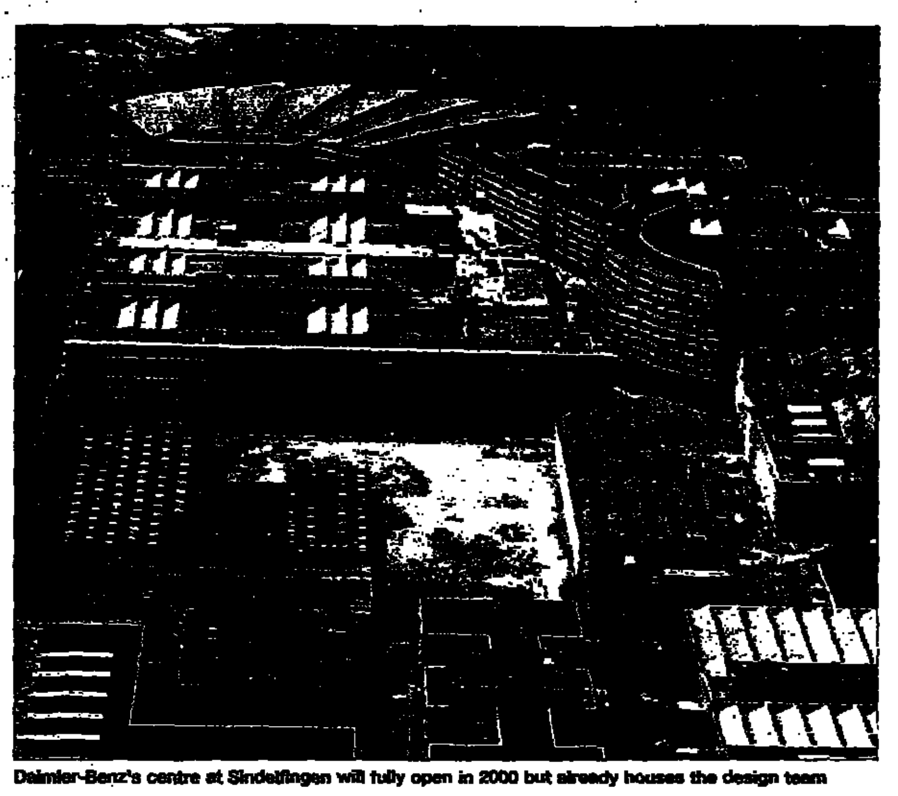
Daimler-Benz, by contrast, refers to its centre as the "city of short cuts", to emphasise the interconnection between different activities and the ease of access for those working there. "We will become much faster in processes – although speed for itself was not our first aim," says Helmut Petri, the group's head of passenger car development. "Product development has already got 30 per cent faster, but we see scope to do more."

Renault hopes the advantages of bringing together so many people on one site will eventually help to save FFr1bn a year on its R&D budget. Product development times are expected to be reduced to 36 months by 2000, eventually falling to 24 months.

Both centres exemplify an accelerating trend in the motor industry as carmakers try to concentrate their R&D activities and move from sequential development work in functional departments to "simultaneous engineering", where the processes involved in developing a new model are conducted in parallel to save time.

The real model for the latest generation of design and R&D centres has been Chrysler's technical centre at Auburn Hills, north of Detroit. Now the group's headquarters after the construction of an adjoining 15-storey management tower, Chrysler's site pioneered the concept of grouping employees in multi-disciplinary teams rather than keeping them in functional departments.

Like Guyancourt, Chrysler's decision to build on a greenfield site also provided room for extensive outdoor facilities. Natural light is always useful to stylists, who often maintain not even the most powerful supercomputer modelling can beat seeing a planned new car in the daylight. For engineers, too, greenfield complexes offered scope for big adjacent test tracks. That simplifies logistics, and, incidentally, should help to keep prototype products further away from the prying lenses of unwanted photographers.



Daimler-Benz's centre at Sindelfingen will fully open in 2000 but already houses the design team

Daimler-Benz, however, decided to shoehorn its new centre on spare land adjacent to the massive Sindelfingen works. "We thought of going for a greenfield site, but eventually decided to put it next to the factory," says Mr Petri. "Conceptually, we wanted to shorten the distances."

Whether brownfield or green, the most striking similarity between the French and German centres is that both boast an actual production line on site – still something of a novelty. The production facilities, although obviously far short of a full-scale factory, are meant to replicate the conditions of the shop floor where a new model will be built.

A history of botched launches across the industry bears witness to the wisdom of trying to get the job done properly from the start. Motoring history is littered with examples of carmakers having to add expensive changes, much slower ramp-ups to full production, or even costly recalls as debugging has had to be postponed to final production rather than the development stage.

"It is much better to make the changes at an early stage than only when the car goes into production," says Patrick Le Quément, Renault's head of styling and quality. Renault is already reaping some of the benefits: full volume production of its new generation Clio compact hatchback, launched earlier this year, was reached within three months, compared with seven-and-a-half for the earlier Mégane.

The use of aluminium in cars is poised for substantial growth for at least the next 25 years. **Kenneth Gooding** reports on how some groups are positioning themselves to take full advantage of current trends

The Swiss-produced Rinspeed E-Go Rocket, with a V8 aluminium engine, was unveiled this year AP

VAW ALUMINIUM

Heads, blocks become a core business

Aluminium cylinder heads and blocks for the Zentec SE engine used in Ford's new Focus car are produced at VAW Aluminium's plant at Dillingen in Germany.

The story of how VAW came to have this business illustrates the methodical and carefully-considered approach some aluminium producers have been taking when targeting customers in the automotive industry.

It was only in 1992 that VAW decided to break into the business. Today 75 per cent of Opel cars have VAW cylinder heads, and its other customers include BMW/Rover, Volkswagen-Audi, Rolls-Royce and the MCC Smart car.

In 1992 VAW's revenue from cylinder head and block castings was DM100m. Today it is a core business and generates DM600m a year. According to Dieter Braun, the board member responsible for VAW's castings division, by 2002 annual revenue will be at least DM1bn and will have grown 10 times in as many years.

He insists car engine makers inevitably will make the transition from using iron to aluminium. "We know about all the new engines under development so we can have high confidence in that forecast," he says.

There are other confident predictions Mr Braun can make because of VAW's privileged view of the car industry.

In Europe at present, 95 per cent of cylinder heads in car engines are made from aluminium and so are 35 per cent of the blocks. In North America, 80 per cent of the heads and 50 per cent of the blocks are made from the lightweight metal. "We feel that by 2003 at least 95 per cent of the heads and 50 per cent of the blocks will be aluminium in both Europe and North America," says Mr Braun.

When in 1992 VAW began looking to see how it might benefit from the substantial increase in the use of aluminium by the car makers, most of its rivals were concentrating on how they could generate extra business by making car body structures. VAW wanted to avoid having to go into direct competition with them. Neither did it wish to compete with the carmakers' core operations.

It also wanted to be in a business where the barriers to entry were high in terms of the technology involved and the investment required.

Aluminium castings for cylinder heads and blocks fitted these requirements. Production of these items is not core business for the automotive groups, and no other aluminium company was making relatively big castings of this sort. Also, VAW is able to offer patented technology which enables aluminium cylinder heads to survive without the usual steel "crack preventers" and for aluminium blocks to be used without the usual grey iron liners.

As for investment, VAW spent $150m to establish the Dillingen plant, which is almost totally automated. Another $50m was spent to expand the plant to make the Zentec parts. VAW has more than doubled capacity at its VAW motorcast plant (formerly West Yorkshire Foundries) at Leeds in the UK, built a DM60m plant in Hungary, and another for DM30m in Linz, Austria. It has a joint venture in Mexico, and has built a $60m facility there to make aluminium heads and blocks for an engine that will go into a new range of General Motors light trucks and vans.

In 1993, having decided which business it wanted to be in, VAW bought Isenwerke Brühl in Germany, a big supplier of iron cylinder heads and blocks but which also had two satellite companies producing aluminium heads and blocks, one of them being West Yorkshire Foundries.

IB at the time was negotiating for a joint venture with Ford to build a new castings facility in Europe. VAW continued the negotiations but Ford changed its mind. It said IB could have the business if it would build the foundry. Mr Braun says the very tight time schedule – Ford wanted the first castings by 1995 – meant that VAW had to quickly scan Europe for a suitable location. It settled on Dillingen because of its steel working tradition.

ALCAN

GM deal helps protect from price volatility

Alcan, the world's second-biggest aluminium group, has spent $200m during the past 10 years in developing technology and partnerships with car makers. Last month it revealed a "multi-billion dollar", 10-year supply deal for aluminium with General Motors, the world's biggest automotive group.

The two groups will "explore new and expanding uses for aluminium, including aluminium intensive vehicles", they said. However, the most important aspect, as far as GM is concerned, is that a way has been found to eliminate much of aluminium's price volatility. Car makers worry about this causing havoc with their costs in future should they incorporate much more aluminium in their vehicles.

The deal apparently does not involve Alcan receiving more or less than prices quoted on the London Metal Exchange, but GM has signed up with a big financial institution for a long-run hedging strategy to avoid exposure to the extremes of the metal price cycle.

The arrangement is thought to involve Alcan supplying mainly sheet products to GM. Prices will be based on the cost of primary aluminium on the LME plus a conversion cost from primary to sheet. This, in turn, will be based on the cost of production plus a return on capital.

GM has the right to substitute ingot for sheet products, a flexibility it needs since it is still by no means certain that car body sheet will take off as the preferred material in cars. Steel and composites remain viable alternatives.

Nevertheless, Alcan already is a big supplier of aluminium sheet for "closures" such as doors, trunk (boot) and bonnet (hood) lids as well as fenders (bumpers). Jacques Bougie, Alcan's president, insists that present demand for these items does not show just how well his company is positioned to take advantage of growth in demand from the carmakers for aluminium sheet beyond the year 2000.

"From 2000 or 2002, growth from sheet – the skin of the car – is where we are positioned to benefit. Not many people realise that the structure of an aluminium intensive vehicle, the space frame, is 40 per cent sheet. For high-volume models, Alcan's structured vehicle technology involves 99 per cent sheet.

"And we are the leading supplier of sheet around the world. We've patented the structure technology and been working with manufacturers towards its introduction."

He suggests the growing automotive market for aluminium sheet represents potential annual sales of 300,000 tonnes for Alcan within a decade. That represents nearly 16 per cent of the 1.9m tonnes of fabricated aluminium products Alcan shipped last year.

In October Alcan launched a new organisation, Alcan Global Automotive Products, which will integrate its global strategy for the automotive market. "We will co-ordinate the company's separate sheet based automotive efforts in a global organisation to meet the needs of customers world wide," says Mr Bougie.

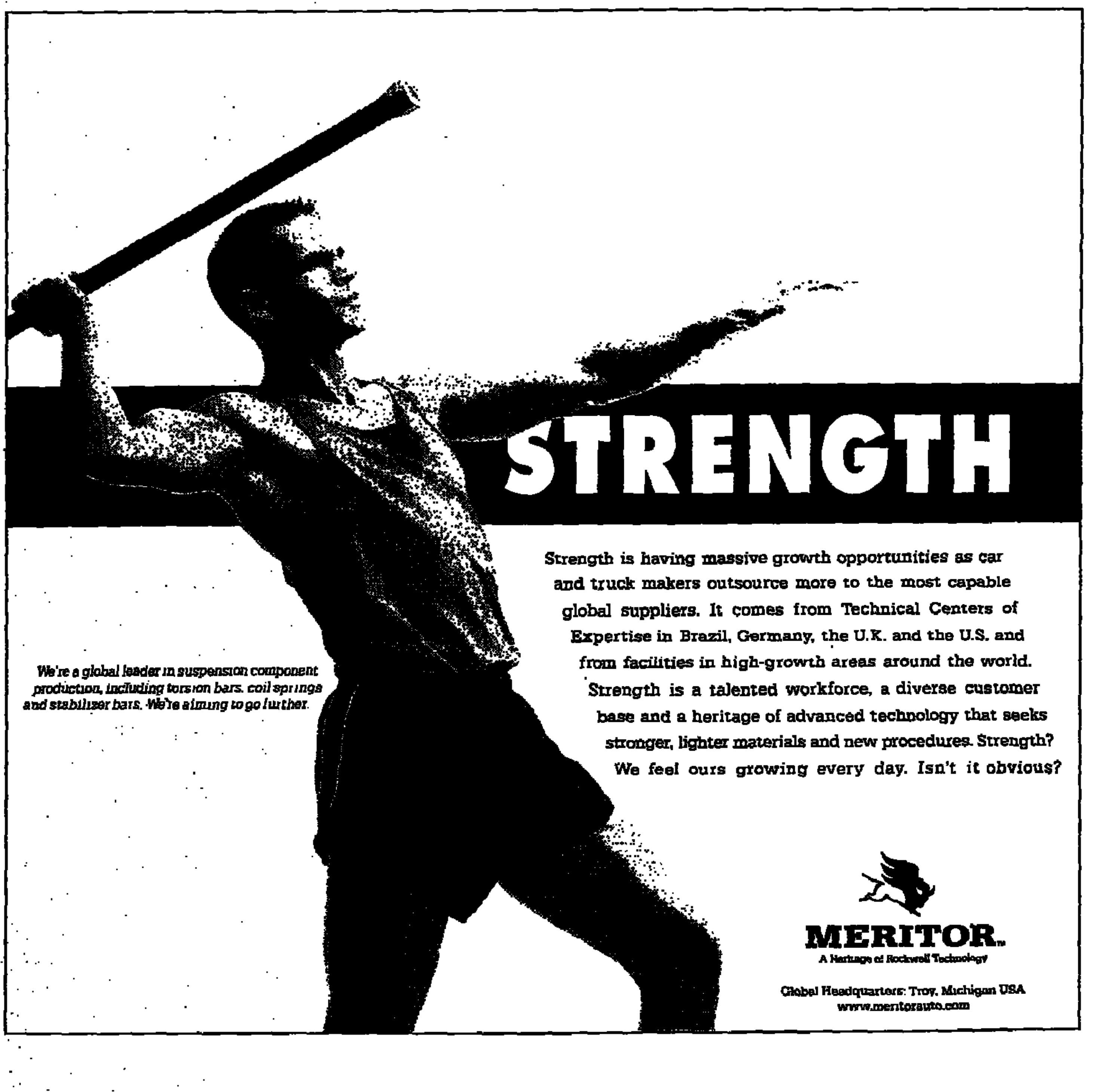
Donald Macmillan, who since 1994 has been Alcan's general manager of automotive products in Detroit, will head the new organisation, based in Farmington Hills, Michigan.

In Europe, the use of aluminium sheet – as distinct from casting or extrusions – in cars accounts for about 22,000 tonnes a year at present. This is expected to rise to 70,000 tonnes by 2002 and to 150,000 tonnes by 2005, according to Roland Harings, manager of sales and marketing for automotive sheet in Europe. If the European car industry went ahead with all the plans on all its drawing boards, nearly 1m "aluminium intensive" cars a year would be produced within a decade.

Alcan's German subsidiary has already taken action to answer the obvious question from carmakers: will there be enough aluminium, particularly aluminium sheet, available if we go down that route?

Five years ago it bought the Nachterstedt rolling mill in what was once east Germany from the Treuhandenstalt, the privatisation organisation, specifically to meet potential demand for aluminium sheet from the automotive industry.

About DM271m has been spent to upgrade and expand the plant which now has an annual rolling capacity of 250,000 tonnes.



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